

FINANCIAL TIMES



Equatorial Guinea
Oil bonanza for
banana basket case

Page 7

World Business Newspaper <http://www.FT.com>

European Union aims to counter US Cuba laws

The European Union is pressing ahead with moves to counter US laws penalising foreign companies that do business in Cuba. A tense day of talks in Luxembourg ended with Denmark dropping its threatened veto of the EU moves and agreeing to a compromise. The EU has already complained to the World Trade Organisation about the Helms-Burton law, but further counter-measures are seen as a test of Europe's credibility in trade policy. Page 4

Air France hinted it might bid for AOM, its domestic rival. The suggestion comes as British Airways looks set to boost its position in France by winning control of private carrier Air Lib. Page 17

Portugal set to back bid: Lisbon looks set to approve an Es38.15bn (\$218.7m) bid led by US cigarette maker Philip Morris for 65 per cent of state-owned tobacco company Tabacalera. Page 17

Deutsche Telekom chief Ron Sommer said the German company's priority would be cutting its debt to DM65bn (\$42bn) by 2000 - even if it meant forgoing chances to expand. Page 17

Army admits killings: Burundi's Tutsi-dominated army admitted killing about 50 Hutu civilians earlier this month and said those responsible would be punished. Editorial Comment, Page 15

Shutto gives up finance portfolio: Belaagued Pakistan prime minister Benazir Bhutto (left) gave up the finance portfolio she has held since coming to power three years ago. Her successor in the job will be privatisation minister Naveed Qamar. His appointment is seen as a move to please the International Monetary Fund, which has been withholding a \$600m stand-by loan pending firm government action. Page 16. Warning on tariff cuts, Page 4

UK seeks to ban combat knives: Britain's Conservative government agreed to consult all political parties on banning combat knives following last month's conviction of a youth for the fatal stabbing of a London headmaster. Page 9

McDonnell Douglas has scrapped plans to develop a large jetliner to compete with market leaders Boeing and Airbus. The move will revive questions about the aerospace group's future in the commercial sector. Page 20

Crackdown on tax debtors: Russia has launched its threatened crackdown on corporate tax debtors by starting bankruptcy proceedings against four big companies. Page 2

Ukraine plans to follow Russia into the international capital markets by issuing its first eurobond, possibly by early 1997. Page 3

European pensions: A British parliamentary committee will call this week for the scale of countries' unfunded pension liabilities - those not covered by specific assets - to become a new criterion for eligibility to join a European single currency. Page 9

Citibank: Japan's post and telecoms ministry has granted Citibank permission in principle to link with nearly 23,000 automated teller machines operated by post offices across Japan. Page 17

Fewer hits: Vietnam's Dengue fever has broken out in Vietnam's Mekong Delta following the worst floods for years. Nine people have died and 4,000 cases have been reported.

Bulgarian Socialists beaten: Bulgaria's ruling former communists lost in weekend presidential elections, according to official preliminary results showing opposition candidate Petar Stoyanov ahead with 43.65 per cent of the vote with Socialist rival Ivan Marov on 27.07 per cent. Page 2

Marcos jewels to be auctioned: A Philippines court approved the auction of almost of \$12m of jewellery belonging to former first lady Imelda Marcos. A Marcos family request to stop the sale was rejected.

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STOCK MARKET INDICES

	New York	London
Dow Jones Ind Ar	5,908.21	(+10.81)
NASDAQ Composite	1,220.78	(-1.02)
Europe and Far East		
CA40	2,150.39	(+12.04)
DAX	2,703.93	(+29.61)
FTSE 100	4,025.3	(+2.9)
Nikkei	20,855.41	(+145.44)

US LUNCHTIME RATES

	London
Federal Funds	5.1%
3-mth T-bills	5.131%
Long Bond	9.6%
Yield	5.825%

OTHER RATES

	London
3-mth Interbank	5.6%
UK 10 yr Gilt	9.1%
France 10 yr OAT	10.372%
Germany 10 yr Bund	10.149%
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NORTH SEA OIL (Argus)

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Barrel Dated	\$34.455 (24.11)
DM	2,4508 (2,4456)

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NEWS: EUROPE

Future EMI chief warns too much stress being placed on one-off budget measures

Rush to qualify for Emu condemned

By David Brown
in Amsterdam

The stability of Europe's planned single currency is being put in danger because aspiring member countries are relying too much on one-off budgetary manoeuvres to secure their place. This is the view of Mr Wim Duisenberg, the Dutch central bank governor, who is to preside over the transition to monetary union.

Mr Duisenberg, who will become president of the Frankfurt-based European Monetary Institute next July, said in an interview that structural deficits and

debt levels were not being paid enough attention.

Spain and Italy have made clear this month that they intend to go all-out to qualify for the first round of monetary union in two years' time. This will require special arrangements in their national budgets for 1997, the year on which eligibility will be judged.

Among harder currency countries, the Netherlands — where public debt remains outside Emu convergence criteria — was itself using exceptional measures, such as running down the treasury's F1 10bn-plus (about \$42bn) account with the central bank, he conceded.

"Of course, various tricks and one-off measures can effectively bring one's figures near or under the target criteria for 1997, but the essence of the Maastricht exercise is that reform should be pursued in a more structural way," he said. Mr Duisenberg, a monetarist, has maintained a fierce independence from Dutch government policy.

But in a strong defence of the Emu project, he maintained that Europe could count on faster economic growth and higher employment if it moved determinedly towards the single

currency regime. This is in contrast to those who argue that the plan could depress growth, darken prospects for Europe's 18m unemployed, and force the costs of the transition on to the public at large.

Mr Duisenberg, who is also tipped to head the European central bank, successor to the EMI, insisted the EU's high jobless rate was due to cyclical factors and labour market rigidities. However, the move towards Emu had inspired governments to take steps to improve the functioning of their labour markets and reduce their role in the economy overall.

This would naturally help fight unemployment.

Mr Duisenberg's remarks come against a background of deteriorating labour relations and further signs of a fraying social consensus in many parts of the EU. Within the past fortnight Germany, France and Belgium have suffered nationwide strikes, while both France and Austria have witnessed an electoral polarisation towards anti-European extremes.

He rejected suggestions that fears among bankers about access to the Target currency clearing system were symptomatic of a

deeper split emerging between Emu "ins" and "outs" within a multi-track Europe.

Mr Duisenberg described the split over Target as primarily a technical issue, although it had political and commercial overtones. He said several commercial banks in countries such as Denmark, had signalled that they might transfer their central treasuries to place themselves within the single currency area.

Stable exchange rates would improve the effective functioning of the market overall, he maintained. See Netherlands survey

Russia moves on corporate tax debtors

By John Thornhill in Moscow

The Russian government has started carrying out its threat to crack down on the country's worst tax debtors by launching bankruptcy procedures against four big companies.

The move is designed to tackle the government's severe budgetary problems, which have led to long delays in paying pensions and wages and sparked a breakdown of talks with the International Monetary Fund over disbursement of the latest monthly tranche of its \$10.2bn loan.

Mr Pyotr Mostovoi, head of the federal bankruptcy agency, said the government had threatened a further seven companies with bankruptcy unless they paid their bills within a week and would investigate 12 more big oil and gas companies.

The government's efforts to get tough with tax debtors by publishing lists of how much various companies owed were already beginning to bear some fruit, Mr Mostovoi said.

"Many of the enterprises that were declared to be major non-payers of taxes, have now

become more active," he said.

The four targeted companies include Moskvich, a troubled car manufacturer, Kamaz, a truck producer, Krasnodarnefteorgsintez, oil refining concern, and Achinsk Glinozemny Kombinat, an aluminum company.

Two other oil companies have rescheduled their tax payments and are no longer on the list.

The government is likely to press for a reorganisation of the four targeted companies rather than outright liquidation, although Russia's bankruptcy procedures can be cumbersome.

Some of the targeted companies have complained their selection has been political and the government's move risks dragging regional leaders into disputes with the federal authorities.

Mr Miminov Shainiev, president of the central Russian republic of Tatarstan, where Kamaz is based, has denounced the government's initiative, saying he will support the truck producer.

More sparks could fly if the federal bankruptcy agency takes action against Zil, another troubled car manufacturer currently under scrutiny, which is backed by Mr

Yuri Luzhkov, Moscow's populist mayor.

The government says it is employing three objective criteria for selecting targets: the size of a company's outstanding bills, the proportion of tax it has paid, and the absence of government debts to the company.

Mr Anatoly Chubais, head of the presidential administration, who is taking an increasingly active role in supervising economic policy, has said that it is "absolutely intolerable" that the rate of tax collection last month fell to 45 per cent of target.

Bulgarians sell some family silver

Urgent need for ready cash is forcing a reluctant Sofia to offer stakes in some of the country's few profitable state companies, writes Anthony Robinson

The vote of no-confidence in Bulgaria's Socialist government delivered in last Sunday's first round presidential election will not change its overriding priorities: raising more than \$1bn to service its \$10bn foreign debt next year; restoring confidence in the banking system; and persuading the International Monetary Fund to release the delayed \$115m second tranche of a \$580m standby loan agreed in July.

The government, which still thinks in terms of Soviet-style *dirigisme*, has come to the reluctant conclusion that only the rapid sale of the relatively few profitable state-owned companies provides an escape route.

A 25 per cent stake in BTC, the state telecoms company, is high on the list of 22 "jewels" to be sold to foreign strategic investors, along with copper mines, shipyards, steel and engineering plants, and banks.

The list also includes two chemical plants whose ability to survive years of under-investment and general economic collapse help to explain how some Bulgarian enterprises have managed to retain their status as valuable assets attractive to foreign investors ready to unlock their true potential.

The two companies are Sodi Devnya, which produces soda ash and related chemicals at Varna, Bulgaria's biggest Black Sea port, and Chimco, which produces urea fertiliser, ammonia and industrial gases at a relatively modern plant 90km north of Sofia, the capital.

Both are export-oriented and therefore partially insulated from the high inflation, shaky banks and political interference which have plagued the domestic economy.

The decision to build Chimco was taken after the discovery of a small natural gas deposit 15km from the town of Vratsa. The deposit was exhausted soon after the

warehouse in Varna harbour give it a cost advantage of \$10-815 a tonne over equivalent Russian plants at Togliatti which have to pay rail and transit fees through Ukraine and loading fees at the port of Odessa.

Faced with Russian dumping in the early 1990s which depressed world market prices, Chimco survived initially by switching the bulk of sales to the Chinese mar-

ket and, since 1993, to North America.

Profits rose sharply on higher world prices for urea and ammonia in 1995 and nearly doubled again to \$57m pre-tax in the first nine months of this year, according to accounts presented to potential buyers which include Daewoo of South Korea and Norsk Hydro.

Sodi Devnya, which is

expected to be the first on

the rapid privatisation list to be sold, sits on top of huge and cheaply exploitable deposits of limestone and salt, the basic inputs for its standard Solvay-process soda ash plant.

Half its output of around 200,000 tonnes a year is exported to South Korea for LG corporation's glass plants. Another 40,000 tonnes goes to South Africa.

What attracts the six foreign investors which have tendered is the potential for expanding production and exports. The bidders, which include LG of South Korea, Solvay of Belgium, Rhône-Poulenc Rorer of the US and Brunner-Mond of the UK, have submitted plans for substantial investment — one wants to raise capacity to nearly 1m tonnes a year by the end of the decade.

Such plans will be encouraged by amendments to the foreign investment law which offer a three-year tax break to foreign companies investing more than \$5m and will permit faster depreciation than the meagre 4 per cent annually allowed by the current law.

But the foreign bidders' emphasis on high investment clashes with the government's overriding need for cash up front to head off a looming foreign debt repayment crisis.

In April, only Sodi Devnya, the Varna power station and the 25 per cent stake in BTC were earmarked for privatisation. The government hoped Sodi would bring in around \$500m and the BTC stake \$800m — more than the total \$715m foreign investment in Bulgaria since 1991.

Realisation that this was wildly optimistic helps explain why the rapid privatisation programme has been expanded to 22 companies.

This raises a question mark over his ability to attract votes from Bulgarians who demonstrated their disillusionment with the mainstream parties by staying home or backing smaller groups.

The lion's share of votes for the latter went to Mr Georgeanchev, populist head of the Bulgarian Business Bloc. His party used to support the socialists in parliament and he probably received the votes of disaffected BSP supporters. But he has refused to endorse either of the run-off candidates and has blamed both main parties for contributing to the country's collapse.

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Reversing that reform, as he is pledged to do, would confirm Mr Sant's move away from EU membership.

Maltese elect anti-EU premier

By Godfrey Grima in Valletta

Mr Alfred Sant, leader of Malta's Labour party, was yesterday sworn in as prime minister with a mandate to withdraw the island's application for membership of the European Union.

Thousands of Labour sup-

porters poured on to the

streets to celebrate after Mr

Eddie Fenech Adami, prime

minister since 1987, con-

ceded defeat in Saturday's

general election.

Labour's dramatic victory

over Mr Fenech Adami's

centre-right Nationalist

party represents a spectacu-

lar reversal in its fortunes

since the last election.

In 1992, the Nationalists won a 13,000 majority in the popular vote among the island's 274,000 electors.

Last Saturday's poll put Labour 7,631 votes ahead and gave it a single-seat parliamentary majority. The party took 50.7 per cent of the popular vote and cut the Nationalists' share to 47 per cent from 51.8 per cent in 1992.

Mr Sant had campaigned on a promise to pull out of Nato's Partnership for Peace and to withdraw Malta's application to join the EU as a full member, filed by the Fenech Adami government in 1991.

Shortly after taking office, Harvard-educated Mr Sant, 48, said his priority was to maintain security in the country. Equally urgent, he added, was the launch of an all-out war against the spread of drugs. Mr Sant will form his cabinet after the vote counting process ends, probably tomorrow.

Several factors appear to have brought about Mr Fenech Adami's downfall, not least the introduction of value added tax last year to replace customs duties as part of his move towards European Union membership.

Complaints by traders and middle class wage-earners against the increased transparency in income and cost of living rises created by VAT may have been taken too lightly by the Nationalists.

Reversing that reform, as he is pledged to do, would confirm Mr Sant's move away from EU membership.

French poll plea rejected

Leading figures in France's governing Gaullist RPR party yesterday dismissed a call by the centre-right UDF, the junior coalition partner, that President Jacques Chirac should respond to France's economic and political malaise by either calling early elections, rehiring his government or holding a referendum.

Mr Patrick Stoenini, a senior Gaullist and adviser to Mr Alain Juppé, the prime minister, said the appeal by Mr François Léotard, the UDF leader, for "institutional solutions" was for the president to decide, and would not in any case "directly answer the anxieties of the French people about unemployment". One Gaullist backbencher accused Mr Léotard of merely wanting a job in the government because he was bored being outside it.

Nevertheless, Juppé aides concede the main incentive for a reshuffle, perhaps next spring, would be to bring in Mr Léotard, who is proving an awkward critic of many aspects of government policy.

David Buchan, Paris

Corsican talks claim

A Corsican nationalist claimed yesterday that he had had secret talks recently with senior French officials despite government denials that it had met groups linked with terrorists. Mr François Santoni, a leader of the Cuncalo, political wing of the FLNC-Canal Historique, responsible for a series of recent bombings, gave several names of senior officials he said he had met.

The prime minister's office called his claims "grotesque inventions to justify [Mr Santoni's] demands and violent acts condemned by the majority of Corsicans". However, they were seized on by the opposition Socialists, who said it was an "open secret" such discussions had taken place, and these talks threw into doubt the government's publicly-stated policy of "firmness" in the face of terrorist

Andrew Jack, Paris

Fertiliser takeover cleared

The European Commission confirmed yesterday that it had cleared plans by Hydro Agri Nederland, the Dutch subsidiary of Norwegian oil and gas company Norsk Hydro, to buy the fertiliser company Terni Industrie Chimiche, part of Enichem, the Italian state-controlled chemical concern.

In each of its markets, the Commission said, Norsk Hydro would face competition from important rivals, or entry into the market would be insignificant, or entry into the market would be relatively easy for other producers.

Reuter, Brussels

ECONOMIC WATCH

Retail sales up and down

German retail sales presented a mixed picture in July, rising strongly compared with the same month of last year but declining from the level of June. The federal statistics office yesterday reported sales were up by 2.5 per cent in real terms compared with July 1995 but down by a real 1.9 per cent from June 1996 after adjustment for seasonal and calendar changes.

Compared with July last year, volume sales increased in all retail sectors except speciality food stores. The month's turnover was further boosted by a real 12.2 per cent year-on-year increase in mail order sales as households reacted positively to the new catalogues issued during the month.

Peter Norman, Bonn ■ Sweden had a trade surplus of SKr10.7bn (\$1.6bn) in September, compared with SKr8.5bn in August.



Voters show disdain for the main parties

By Anthony Robinson in London and Theodor Troev in Sofia

Bulgarian voters delivered a slap in the face to the governing Socialists in the first round of the presidential election at the weekend. However, they also showed little enthusiasm for the alternative Union of Democratic Forces (UDF).

With most votes counted, Mr Peter Stoyanov, the anti-Communist UDF coalition candidate, had won 44 per cent against 27 per cent for Mr Ivan Marazov, the Bulgarian Socialist party (BSP) candidate and his running mate Ms Irina Bokova. Eleven other groups shared the rest. Only 60 per cent of the electorate voted.

Both most votes counted, Mr Peter Stoyanov, the anti-Communist UDF coalition candidate, had won 44 per cent against 27 per cent for Mr Ivan Marazov, the Bulgarian Socialist party (BSP) candidate and his running mate Ms Irina Bokova. Eleven other groups shared the rest. Only 60 per cent of the electorate voted.

The halving of the Socialist vote is a personal blow to Mr Zhan Videnov, the prime minister, who had promised to ease the pain of transition to a market economy.

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NEWS: EUROPE

Kiev eyes capital markets with first eurobond issue

By Matthew Kaminski
in Kiev

Ukraine has stepped up efforts to follow Russia on to the international capital markets with the issue of Ukraine's first eurobond, possibly by early 1997.

The former Soviet republic this month sounded out aid donors and western banks about an earlier than anticipated eurobond issue, officials in Kiev said yesterday. The Kiev government could be a borrower in the coming years.

Ukraine's government, which currently depends entirely on foreign aid and an expensive debt market for its deficit financing needs, has recently made clear its intention to find other sources of capital.

A proposed tax cut for

next year, part of a concerted attempt at speeding up structural reform, is partly behind the push for a eurobond issue, a western economist said.

Ukraine will first need International Monetary Fund backing. A critical final round of talks begins today on a three-year \$3.1bn extended fund facility.

The main outstanding issue is the draft 1997 budget, but western officials yesterday were confident that the loan would be disbursed more or less on time in January.

One said the IMF had given Ukraine the green light to go ahead with a eurobond issue.

The Ukrainian government has been buoyed by Russia's success last month in securing a credit rating

and preparing its eurobond issue tentatively for next month.

The Russian situation encouraged [Ukraine] to approach the markets sooner rather than later," said Mr Dan Lubash, managing director of emerging markets at Merrill Lynch.

Ukraine would need less time to prepare for an issue than Russia because the country did not inherit any outstanding Soviet debt that subsequently had to be repaid.

The government has been holding discussions with JP Morgan, Merrill Lynch, CS First Boston and SBC Warburg, according to Mr Mykola Melnitchouk, head of the foreign exchange reserves department at the central bank.

"We're still at an early stage," Mr Melnitchouk said.

He added the options were a larger, long-term duration bond of \$500m or a smaller trial issue. No manager has been selected to lead the issue.

More than \$8bn in debt has been accumulated since 1991.

The budget deficit targets for 1996 have been met.

Next year the country plans a 3.8 per cent fiscal deficit, which includes principal paid on debt.

But analysts believe

Hungary gets S&P investment rating

By Richard Lapper,
Capitol Markets Editor

Hungary was yesterday awarded an investment grade credit rating by Standard & Poor's (S&P), the international credit rating agency.

The triple B minus rating is the lowest of ten investment grade ratings by two other agencies, IBCA and Duff & Phelps, while a fourth agency, Moody's Investor Services, announced this month it had placed Hungary on review for a possible upgrade from its current speculative grade status.

The decision follows the award this year of similar investment grade ratings by two other agencies, IBCA and Duff & Phelps, while a fourth agency, Moody's Investor Services, announced this month it had placed Hungary on review for a possible upgrade from its current speculative grade status.

S&P's upgrade was widely expected by the markets and had little impact on the price of Hungary's most liquid dollar-denominated bonds already trading.

These yield about a percentage point more than US government bonds of the same maturity.

Standard & Poor's said Hungary had reduced its external debt burden and privatisation had helped make the country's exports more dynamic and improved its banking sector.

Net external public sector debt had fallen to an amount equal to an estimated 54 per cent of exports this year, compared with 62 per cent in 1995 and 126 per cent in 1994.

Hungary's vulnerability to economic and financial stresses had been reduced and it was now "more comparable to other sovereigns rated in the investment grade category," said S&P.

Other east and central European governments such as the Czech Republic, Slovakia, Slovenia and Poland already enjoy investment grade ratings.

Turkey's plan for budget attacked

'Zero-deficit' draft dismissed as overestimating privatisation revenues, reports Kelly Couturier



Premier Necmettin Erbakan and coalition partner Tansu Ciller: accused of 'trying to deceive the IMF by introducing misleading figures and an imaginary balanced budget'

Yeni Yuzyil, used blunter language, accusing Mr Erbakan and his coalition partner, the centre-right True Path Party chief Tansu Ciller, of "trying to deceive the IMF by introducing misleading figures and an imaginary balanced budget".

"The trade deficit is larger than expected and foreign investors are staying away until Turkey comes up with some credible stability measures," the diplomat said.

With the deficit steadily increasing and year-end inflation estimated to hit 86 per cent on an "explosive path," one economist forecast the public sector borrowing requirement would reach 12-13 per cent of gross national product, higher than the rate that triggered the 1994 financial crisis.

"The current situation is unsustainable," according to Ciller, a professor of economics, and the IMF is likely to be unwilling to stand by Turkey until it sees some real correction in macroeconomic fundamentals.

Mr Bilal Cetin, a commentator in the liberal daily *Agos*, said: "The unwillingness to trigger a confidence crisis toward Turkey would wait and watch for some positive signals from the government of Mr Erbakan, who in the past has bitterly criticised the IMF and other international financial institutions."

Mr Erbakan was quoted by the Turkish press as saying that though his government awaited a positive report from the Fund, it had ruled out any further standby agreements.

Iliescu still ahead as Romania poll looms

By Virginia Marsh

President Ion Iliescu of Romania, who is standing for a third term in Sunday's elections, has built up a clear lead over his two closest opponents but his party is trailing the main opposition group in the parliamentary contest, according to opinion polls.

However, a poll by Imas, a local organisation, published yesterday showed many voters still undecided - 23 per cent had not made up their mind for the parliamentary election, Romania's third since the collapse of communism.

The poll showed the centre-right Democratic Convention on 25.2 per cent, a point ahead of Mr Iliescu's Party of Social Democracy, the core of the group of former communists that has held power since 1989.

However, the centrist Social Democratic Union led by Mr Petre Roman, the reformist former prime minister, was in third place with 14.4 per cent. It has said it aims to form a coalition with the Convention.

The poll also suggested that two of the three extreme nationalist and neo-communist parties that until recently

supported the PSDR's minority government might not achieve the 3 per cent of the vote needed to enter parliament.

The governing party, backed by powerful business groups, is seeking to distance itself from its former supporters and was instructed by Mr Iliescu to favour its moderate wing when selecting parliamentary candidates. However, with the former communists facing the prospect of defeat for the first time, the campaign has been marked by mudslinging and bitter personal attacks.

Romania's difficult transition to a market economy has given the opposition ample ammunition to attack the government's record. Figures published yesterday put inflation in the year to end-September at 45.3 per cent and the average monthly rate at 3 per cent, double last year's average. In a loan accord with the International Monetary Fund, Romania included a year-end inflation target of 20 per cent, down from 28 per cent in 1995.

The fund froze further disbursements in March after the authorities refused to free the official exchange rate.

At present, the leu's official rate is about 3,360 to the dollar but it is about



A Romanian woman counts her money in front of election posters yesterday. The country's currency has slipped in nervous trading ahead of the poll on November 3.

4.200 in the parallel market.

An overvalued currency is a factor behind a 5.5 per cent drop in exports in the first nine months over the same period last year while hard currency shortages caused by the non-functioning interbank forex market contributed to a 11.1 per cent drop in imports.

Despite recent rises in real wages, monthly take home pay in September was just 71 per cent of 1990 levels.

1996 INTERIM REPORTS

The following companies announce that Interim Reports for the first half of 1996 are available upon request at their respective registered offices and at the Italian Stock Exchange Council.



STET - Società Finanziaria Telefonica per Azioni
Registered capital Lit 5,281,212,121,000 fully paid-in
Entered under No. 286/33 in the Ordinary Section of the
Company Register of the Court of Turin - Tax I.D. No. 00471850016
Registered office in Turin - Via Bertola, 28 (Tel.: 011/5951)
Head office in Rome - Corso d'Italia, 41 (Tel.: 06/85891)



Registered capital Lit 8,204,071,437,000 fully paid-in
Entered under No. 131/17 in the Ordinary Section of the
Company Register of the Court of Turin - Tax I.D. No. 00580600013
Registered office in Turin - Via San Dalmazzo, 15 (Tel.: 011/55141)
Head office in Rome - Via Flaminia, 189 (Tel.: 06/36881)



SIRTI Società per Azioni
Registered capital Lit 220,000,000,000 fully paid-in
Entered under No. 17236 in the Ordinary Section of the
Company Register of the Court of Milan - Tax I.D. No. 00748480159
Registered office in Milan - Via G.B. Pirelli, 20 (Tel.: 02/66771)



Telecom Italia Mobile

Società per Azioni
Registered capital Lit 410,203,571,850 fully paid-in
Entered under No. 2582/95 in the Ordinary Section of the
Company Register of the Court of Turin - Tax I.D. No. 06947890015
Registered office in Turin - Via Bertola, 34 (Tel.: 011/5565111)
Branch office in Rome - Via L. Rizzo, 22 (Tel.: 06/39001)

Protestkundgebung zum Weltspartag gegen die geplante Abschaffung der D-Mark.

Es sprechen:

Manfred Brunner

Dr. Bruno Bandulet

Prof. Dr. Wilhelm Hankel

München, 30. 10., 17.00 Uhr, Marienplatz

Wehrt Euch! Sonst kommt der EURO.

Kohl und Waigel wollen die bewährte D-Mark abschaffen. Bereits 1999 soll der Euro kommen. Karl Otto Pöhl, damaliger Präsident der Deutschen Bundesbank, warnte schon 1988: "Die Einführung einer europäischen Währung ist nur vergleichbar mit der Währungsreform 1948."

Jetzt bleibt nur noch wenig Zeit, die Mark zu retten. Jetzt muß die schweigende Mehrheit der Deutschen, NEIN sagen zum dritten Währungsabenteuer in diesem Jahrhundert.

Kommen Sie zur Protestkundgebung am 30. Oktober auf dem Marienplatz. Auch wir wollen Europa. Aber nicht auf deutsche Kosten. Und nicht mit einem schwindsüchtigen Plastikgeld.

■ Wir fordern die Währungshüter der Deutschen Bundesbank auf: Bleiben Sie hart! Sie haben die überwältigende Mehrheit des Volkes hinter sich.

■ Wir fordern die Großbanken auf: Machen Sie sich nicht länger zum Komplizen einer Politik, die Ihre Kunden - die Sparer - auf kaltem Wege enteignet.

■ Wir fordern den bayerischen Ministerpräsidenten auf: Handeln Sie jetzt! Die CSU kann den Euro stoppen, wenn sie wirklich will. Deutschland wartet auf ein Signal aus München.

■ Und wir fragen Helmut Kohl: Wie wollen Sie in die deutsche Geschichte eingehen? Als Kanzler der Einheit oder als Totengräber der Deutschen Mark?

Die Mark muß bleiben. Dafür demonstrieren wir am 30. Oktober auf dem Marienplatz in München

Die Großkundgebung findet auch bei Regen statt.

Bei der Veranstaltung haben Sie Gelegenheit das Volksbegehren

„gegen den EURO“

zu unterschreiben.



Die Freiheitlichen

NEWS: WORLD TRADE

Brussels fineses Danish threat to Cuba law riposte

By Lionel Barber
in Luxembourg

EU foreign ministers last night reached a compromise to prevent a Danish veto wrecking Europe's attempts to counter US laws which penalise foreign companies doing business in Cuba.

After a tense day in Luxembourg, Danish diplomats and the European Commission found a formula which would salvage Europe's counter-measures against the US Helms-Burton law.

The EU has already lodged a complaint against Helms-Burton at the World Trade Organisation in Geneva, but additional counter-measures are seen as a test of Europe's credibility in trade policy.

Denmark supports the

principle of reprisals against Washington, but claimed that the use of Article 235 of the treaty of Rome compromised its national sovereignty.

Under the compromise, the EU will stick to its original legal base, including the catch-all article 235, to support EU "blocking statutes" against the US. The proposed EU regulation will allow European companies penalised in US courts to claw back damages in European courts.

The compromise will cite references to the 1968 EU Brussels convention which defines the boundaries of national and EU enforcement of judgments in civil and commercial matters.

This will allow the Danes

to claim that there is "nothing new" about the EU's use of Article 235 in trade matters, an EU diplomat said.

The Danish government's objections arose because of concern about a court case brought by a Danish citizens' group that accuses Copenhagen of surrendering sovereignty to the EU.

Denmark had come under heavy pressure to drop its opposition to EU retaliation. Diplomats noted that no Danish company was currently being targeted by the Helms-Burton law, which allows naturalised Americans to sue foreign companies "trafficking" in Cuban assets confiscated by the Castro regime.

A WTO panel is due to meet on November 20 to rule on EU complaints that the Helms-Burton act - and similar US laws which seek to restrict trade with Iran and Libya - is extra-territorial.

Mr Niels Helvig Petersen,

the Danish foreign minister,

had ruled out suggestions that Denmark could abstain from an agreement to go ahead with the EU regulation.

In a move which raised the stakes in the negotiations in Luxembourg, he had declared: "Either we vote Yes or we vote No."

Sir Leon Brittan, EU trade commissioner, said failure by the EU to come up with a response would have sent "a very bad signal to those who wish to interfere in Europe's affairs".

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Wages in industrialised nations hold up in spite of job losses

Textile shifts fail to reduce pay

By Frances Williams
in Geneva

The International Labour Organisation said yesterday that the dramatic shift in textile, clothing and footwear production from rich to poor countries over the past 25 years has not put downward pressure on wages in industrialised nations in spite of big job losses.

In some developed countries real earnings have actually risen, according to a report prepared for an ILO meeting this week on the impact of globalisation in the textile, clothing and footwear (TCF) industries.

However, the wages gap between TCF workers in high-income and low-income countries has widened, the report says. Germany and Italy, still the world's biggest textiles producers, had hourly labour costs in 1990 of US\$18.40 and \$15.70 respectively, compared with just \$1.70 in Mexico.

Although global employment in TCF industries has increased on balance as jobs have shifted to the developing

Main exporters of clothing 1986-92				
	1986 (\$bn)	1992 (\$bn)	Variation from 1986 to 1992 (%)	Share of world exports in 1992 (%)
1 Hong Kong	8.4	20.1	129	7.5
2 Exports, local origin	6.7	10.0	50	N/A
3 France	4.7	10.1	49	5.2
4 China	3.9	18.7	575	12.5
5 Italy	7.5	12.2	63	9.4
6 Germany	4.2	8.4	200	8.4
7 Republic of Korea	5.5	8.8	24	5.2
8 France	2.5	5.3	112	4.0
9 United States	0.9	4.2	237	3.2
10 Turkey	1.2	4.2	237	3.2
11 Taiwan	4.2	4.1	-3	3.1
12 Portugal	1.5	4.0	172	3.1

*1992 Federal Republic
excluding exports from processing zones for 1992

Source: United Nations COMTRADE database

ing world, a parallel shift of production from the formal to the informal sector has had "generally negative consequences on wage levels and conditions of work".

More and more TCF workers are in part-time or temporary jobs, working at home or in small workshops. The use of child labour has also grown - though the ILO believes the trend may be downward and is estimated to

pressure from consumers' groups and others, and from the ethics codes adopted by several large multinational corporations.

In the clothing industry "the number of clandestine workshops has grown exponentially in recent years," the ILO says, noting that few respect labour laws and many hire illegal migrants.

Counterfeiting is also widespread and is estimated to be

account for more than 5 per cent of world trade in clothing.

The report puts the number of TCF workers worldwide at 23.6m in the formal sector and "five to ten times" as many in the informal sector. Between 1970 and 1992, the number of TCF jobs in the seven biggest industrialised economies shrank by over 3m or 42 per cent, but this has been more than made up by higher employment in developing nations.

In textiles, industrialised countries remain the biggest producers in spite of a rapid increase in output by some Asian nations. Germany and Italy alone account for a fifth of world exports, with four other industrialised nations - Belgium, France, Japan and the US - among the top 10 exporters.

However, in clothing and footwear, developing nations are now the leading suppliers.

*Globalisation of the footwear, textiles and clothing industries, ILO Publications, CI-1211 Geneva 22, SF/20

Rocky road lies ahead for China's car industry

Tony Walker on problems besetting a 'pillar of the economy'

China's much-heralded love affair with the motor car has hit a bumpy patch due to an uncertain regulatory environment, punitive taxes, lack of consumer financing and a lingering credit squeeze.

While Mr He Guangyuan, minister of the ministry of machine building, has been trumpeting the automotive sector as a "pillar" of China's economy, the air seems to have been going out of the industry's tyres.

Car manufacturers are operating at about half capacity and stockpiles of unsold vehicles in the first six months stood at 116,000 - more than a third of last year's production of 330,500 vehicles.

Volkswagen, which, with local partners, is responsible for manufacturing more than half China's cars has run into difficulties with production of its Jetta compact in the northern city of Changchun.

Mr Andreas Meurer, spokesman for VW in Asia, said that production in Changchun would be scaled back this year to 24,000 units from the previously planned 50,000. However, it is not clear the VW-First Automotive Corporation (FAC) joint venture will be able to sell even this lower output. The venture also produces about 10,000 Audis a year.

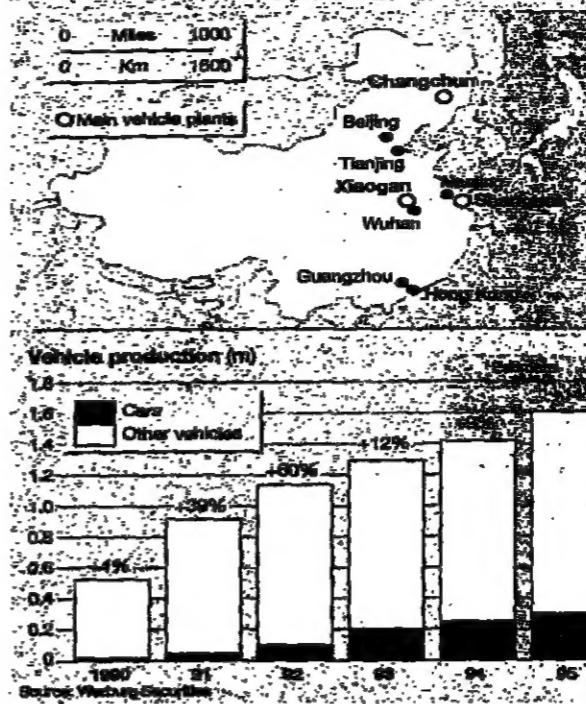
VW's main manufacturing base is in Shanghai, where its 50-50 DM220m (\$1.3bn) joint venture with the Shanghai Automotive Industry Corporation (SAIC) produced 170,000 Santana cars in 1995.

China Daily Business Weekly painted a gloomy picture for the VW-DM220 joint venture in Changchun. It said an improved national market was urgently needed for the company to take advantage of its newly enlarged production capacity and pay back large loans beginning next year.

The paper quoted Mr Wei Wei, vice president of FAC, as saying: "We are facing a very difficult situation. The market is not recovering as expected. The government is not giving us any support. We are facing a very difficult situation."

Mr Wei was surprised to

China: car output, sales and vehicle production



one of China's three automotive conglomerates, as criticising recent decision by the People's Bank of China to suspend a scheme under which purchasers could pay for cars in instalments. He would appeal to Beijing to reconsider the suspension which was imposed, the bank said, because of concern about inflationary effects and because legal regulations were not in place.

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also acknowledged that it would be difficult to eradicate because organisations connected with China's security forces were involved in smuggling.

Slowing sales and a slowdown in the automotive sector's growth may affect ambitious plans to step up production to 2.7m units by 2000 and 5m by 2010. Car production was slated to rise to 1.7m by 2000, and 4m by 2010, a tenfold increase. These targets now appear unrealistic.

But representatives of foreign automotive companies, such as Ford, General Motors and Toyota, which are battling to secure a foothold in China, say they regard present difficulties as part of a "teething process." As the representative of one of the US giants said: "Some reality may be setting in... but that is not changing the fundamentals that there is tremendous potential here."

China unveiled a new automotive industry policy in 1994 which froze approvals of new car assembly joint ventures until 1997 and envisaged the establishment of two or three major conglomerates supported by a second tier of smaller producers to achieve economies of scale.

In the light of the slowdown in vehicle sales, China may now extend the freeze on new car assembly ventures, according to Mr Yu Xiaosong, a vice minister of the state economic and trade commission. "We have too many car assembly plants... I think new car assembly plants would find difficulties making a profit," Mr Yu said.

But representatives of foreign vehicle producers said that while capacity was now outstripping demand, this situation would not last long and it was doubtful whether Beijing would maintain a ban on new joint ventures for long. "The market can turn around very quickly," said one.

Local manufacturers and their joint venture partners complain bitterly about the smuggling. Mr Martin Posth, president of Volkswagen Asia-Pacific, warned recently that the grey market was undermining China's application for membership of the World Trade Organisation. But he

economics and discriminating against other countries' exports.

Mr Burki's statement appears designed to calm political controversy over a recent analysis of Mercosur by Mr Alexander Yeats, principal economist in the Bank's international trade division. It found that the arrangement was handicapping member

Martin Wolf, Page 14

World Bank softens criticism of Mercosur

By Guy de Jongquieres

The World Bank has taken the unusual step of publicly defending Mercosur, after a study by one of its senior economists found that the four-nation Latin American trade grouping was severely distorting international trade.

Mr Shahid Javed Burki, vice-president of the Bank's

ment. It said "it might not be a bad idea for potential investors in Mercosur to get on board before the train leaves the station."

Mr Burki admitted that some of the fastest growth in intra-Mercosur trade had been in products which could not be sold on world markets because they were not internationally competitive.

But he expected the problem to be corrected as Mercosur lowered trade barriers against the rest of the region.

He said Mercosur had enhanced the credibility of economic reforms by its members - Argentina, Brazil, Paraguay and Uruguay - and made it more difficult to reverse unilateral liberalisation.

India warned on tariff cuts

By Mark Nicholson
in New Delhi

India risks economic "marginalisation" unless it accelerates cuts in tariffs and other trade barriers and further dismantles restrictions on foreign investment, its top trade official said yesterday.

Mr Hoda, a former Indian trade bureaucrat, told a World Economic Forum conference in Delhi that the country's five-year-old trade and investment reforms were not sufficient to keep pace with similar developing countries and that India's competitiveness was suffering.

However, such moves will face strong political resistance from within the 13-party United Front government and Mr Tejendra Khambo, India's trade secretary, has indicated that India will seek a longer phasing of such measures, and a more gradual programme of liberalisation, than its main trade partners are seeking.

Mr Hoda, India's prime minister, yesterday assured the same forum that the reform programme inherited from the previous Congress party regime was both "unstoppable and irreversible", but added that his coalition would adopt "an approach of gradualism".

Others at the conference echoed Mr Hoda's criticisms. Mr Martin Posth, chairman and president of Volkswagen Asia Pacific, said India must introduce "global quality standards to compete in the world market, and improve infrastructure. It could not rely alone on offering cheap labour and tax incentives to attract foreign investment."

India has cut maximum tariffs from above 300 per cent in 1990 to 50 per cent in 1995, but progress has since stalled. Mr P. Chidambaram, finance minister, even levied an additional 2 per cent

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the competing indicator are end-period values.

Country	UNITED STATES		JAPAN		GERMANY	
	Retail sales index year-on-year percentage change	Industrial production index year-on-year percentage change				

Hard decisions go unmade in Ecuador

Bucaram is singing a confusing song to would-be foreign investors, writes Justine Newsome

President Abdala Bucaram of Ecuador gave an elaborate luncheon this month for Ms Lorena Gallo, an Ecuadorian who achieved notoriety in the US in 1993 by severing the penis of her husband, Mr John Wayne Bobbitt. A day later, due to attend an important conference and reception for foreign investors, Mr Bucaram and his energy minister failed to turn up.

Mr Bucaram may have been nifted: the Economist magazine had organised the conference and on the first day a representative from its EU subsidiary explained why Ecuador deserved its "D" risk rating, putting it on a par with sub-Saharan Africa.

But the president's no-show was only the latest of a series of confusing signals that Mr Bucaram has sent to foreign investors, local entrepreneurs and Ecuador's population about the government's economic plans.

An economic programme, already twice postponed, is now expected to emerge in mid-November. But it is not clear how it will reconcile Mr Bucaram's high-spending campaign promises with his economic team's subsequent pledges of fiscal discipline.



Bucaram's own rock record: the populist president promotes his own rock record

confidence of foreign and domestic investors.

The finance ministry is considering options such as eliminating the subsidy on gas, restructuring electricity and telephone tariffs, removing exemptions on value added tax and revising public sector wage policy. A programme of concessions of public works, such as road building and maintenance, is also set to release resources. Privatisation of 35 per cent of the state telecommunications company, Emetel, is scheduled for April 1997.

But while these changes are being discussed, foreign investors are receiving a quite distinct message.

In August, the government attempted unilaterally to terminate a contract with oil company Maxus. In September, Mr Bucaram backed away from eliminating the gas subsidy, because of its impact on power voters. Under pressure from unions, an electricity privatisation bill passed by Congress last month was also put on hold.

There are still potential investors who regard the administration's enthusiasm to attract foreign investment as genuine. But the worry remains about Mr Bucaram's lack of enthusiasm for politically unpopular reforms.

AMERICAN NEWS DIGEST

US car accord deadline missed

General Motors and the US United Auto Workers union failed to meet a deadline of midnight on Sunday to finalise a new three-year labour accord. Negotiations were due to resume later yesterday amid signs the two sides remained on track for a peaceful conclusion.

The deadline had been set by Mr Stephen Yokich, president of the UAW, in what was seen as an attempt to pressure GM to agree to more of the union's demands on outsourcing. The passing of the deadline leaves the US's biggest car maker open to plant-level stoppages or even a full national strike if it cannot reach an early agreement. The two sides are believed to have agreed in principle to a framework agreement similar to those already adopted at Ford and Chrysler. Negotiations are continuing on details which could have a big effect on the impact of the contract. The industry-wide pattern agreement extends job security to 95 per cent of UAW members, but some plants or workers may be left out of the calculation.

Richard Waters, New York

Canada banks to cut rate

Canada's banks will shave their prime lending rate today from 5.26 per cent to 5 per cent, the lowest level in four decades.

The cut, the third in the past month, reflects aggressive action by the Bank of Canada to stimulate weak domestic demand, as well as a bullish mood towards Canada in financial markets.

A combination of low inflation, record trade surpluses and improving public-sector finances have enabled Ottawa to pursue monetary policies relatively independent of the US Federal Reserve.

US banks charge a prime rate of 8.25 per cent. The yield on Government of Canada 10-year bonds last week slipped below equivalent US Treasury securities for the first time in over a decade.

The Canadian dollar took the latest interest-rate cut in its stride, rising slightly yesterday morning to about 74.30 US cents.

Bernard Simon, Toronto

Coalition wins in Chile

Chileans voted for the status quo in nationwide municipal elections on Sunday, with the ruling centre-left coalition taking 56 per cent of the votes, up 3 points on its share in the last municipal elections in 1992.

With 96 per cent of the results in, the rightwing opposition coalition, Union for Chile, also had reason to be pleased, with a 3-point rise in its vote to 33 per cent.

The results are being read as changing the balance in both coalitions, where parties and politicians are already jockeying for position for the 1997 congressional elections and then the 1998 presidential poll.

On the right, the junior Independent Democrat Union, UDI, celebrated the re-election of one of its leaders, Mr Joaquin Lavín, with a massive 77 per cent of the votes in Las Condes, Santiago's and Chile's richest municipality. He will now be frontrunner as the right's presidential candidate.

In the ruling coalition, the Socialists and the Party for Democracy, PPD, re-elected over a joint 23 per cent of the vote, which puts them within 3 points of the hitherto-unchallenged Christian Democrats, and reinforces the position of their leader, Mr Ricardo Lagos, the minister for public works.

Imagen Mark, Santiago

Consortia awarded Falklands oil licences

By Robert Corzine

Falkland Island officials say yesterday's award of oil exploration licences reflects "a balanced cross-section of the oil exploration industry", in spite of the exclusion of an Argentine company.

Those companies selected to explore the area north of the islands are from the UK, North America, Europe and Asia, as well as Desire Petroleum, a group formed in part to represent the interests of the Falkland Islanders.

Shell, the Anglo-Dutch group and the western world's largest oil company,

and its partner, Agip of Italy, are expected to spend about a quarter of the \$200m that the winning consortia will commit in total over the next five years.

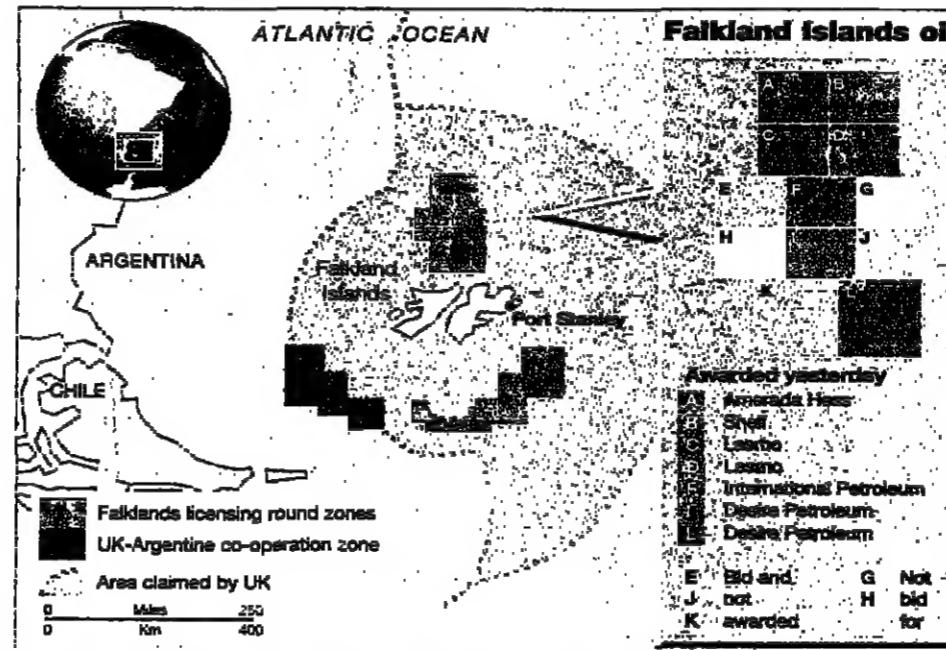
Shell won the rights to explore in Tranche B, which along which Tranche A proved to be the most sought-after area.

Amerada Hess, the US company which is the fifth largest producer in the UK sector of the North Sea, will operate the Tranche A licence, which also includes Fina of Belgium.

Industry analysts say that the presence of many rela-

tively small companies in the winning consortia should not be a constraint on exploration.

Although the results of the licensing round suggest a high degree of international interest in the Falklands, analysts warn against undue optimism. They point to the industry's experience in the deep water west of the Shetland Islands in the UK, the area most often compared to the Falklands. More than \$1bn (\$1.58bn) was spent in exploration west of the Shetlands over more than 15 years before any fields proved commercially viable.



TO PROPEL THE GREAT JOURNEY

From the lone source to the information superhighway

TYRES • power and telecom systems

Conceived and Photographed by Richard Avedon

FIREBIRD

NEWS: AMERICA PREPARES TO VOTE

As Clinton looks set for victory, FT writers examine his party's wider hopes for November 5

Can the Democrats carry Congress too?

One year ago, it was commonplace to believe that the last US election before the millennium would be among the most important of the 20th century.

It appeared to pose a choice between the radical conservative revolution that had helped propel Republicans into control of Congress in 1994 for the first time in 40 years, and a fragile status quo represented by President Bill Clinton and the Democratic party, who once justifiably considered themselves the architects of change.

Mr Ross Perot's new Reform party also threatened to complicate matters for the two main parties.

Whenever Congressman Newt Gingrich, the Speaker of the House, confidently declared, as he frequently did, that it took two elections to bring about a real revolution, dissent was muted and Democrats mostly quaked in their boots. Now the choice confronting the American people a week today looks much less cosmic. The Gingrich-led charge has been repulsed, defeated by its own hubris, skilful defence by Mr Clinton and his party, and an economy healthy enough to make any incumbent blush.

The Republicans, divided every which way between a hard right and a soft middle, were unable to come up with a presidential contender capable of energising and uniting the party. Instead they saddled up an old war horse, the 73-year-old Bob Dole from Kansas, a man to whom honourable compromise was an art form during 35 years in Congress but who, as a candidate, could never compete with a man 32 years his junior and one of the most gifted campaigners in memory.

Mr Perot has also disappeared from most political radar screens, familiarity with his eccentricities - less evident in 1992 - having bred something close to indifference.

Thus, unless every poll and pundit and all intuitions are hopelessly wrong, Bill Clinton will beat Bob Dole next week. Doubt centres only on the margin of victory, which could be as big as the landslides of 1936, 1972

and 1984 or be respectably solid, sufficient to permit Mr Dole to retire with dignity.

A Clinton victory will be hailed as "historic" because no Democratic president since Franklin Roosevelt in 1936 has been re-elected to a second term. Given the personal travails of his first four years, that would also be a remarkable achievement.

But, as it currently stands, the real significance has shifted to the battle for control of Congress, now run by the Republicans with margins of 53-47 in the Senate and 235-198 in the House. The lower chamber also has one vacancy and a sole unaffiliated member, Mr Bernie Sanders, the socialist from Vermont, who invariably votes with the Democrats.

It is devilishly difficult to predict the outcome in either chamber. General factors seem evenly balanced. On the one hand, a nation at peace and with its economy robust should help all incumbents and could preserve the Republican majorities. On the other, while Mr Dole apparently has no coal-tails for Republican candidates to cling to, Mr Clinton may prove to have some winning marginal seats for his party.

But there is also evidence that Americans are comfortable with a divided government - a president of one party, Congress at least partly run by the other - though how this may be quantified in individual races is unanswerable.

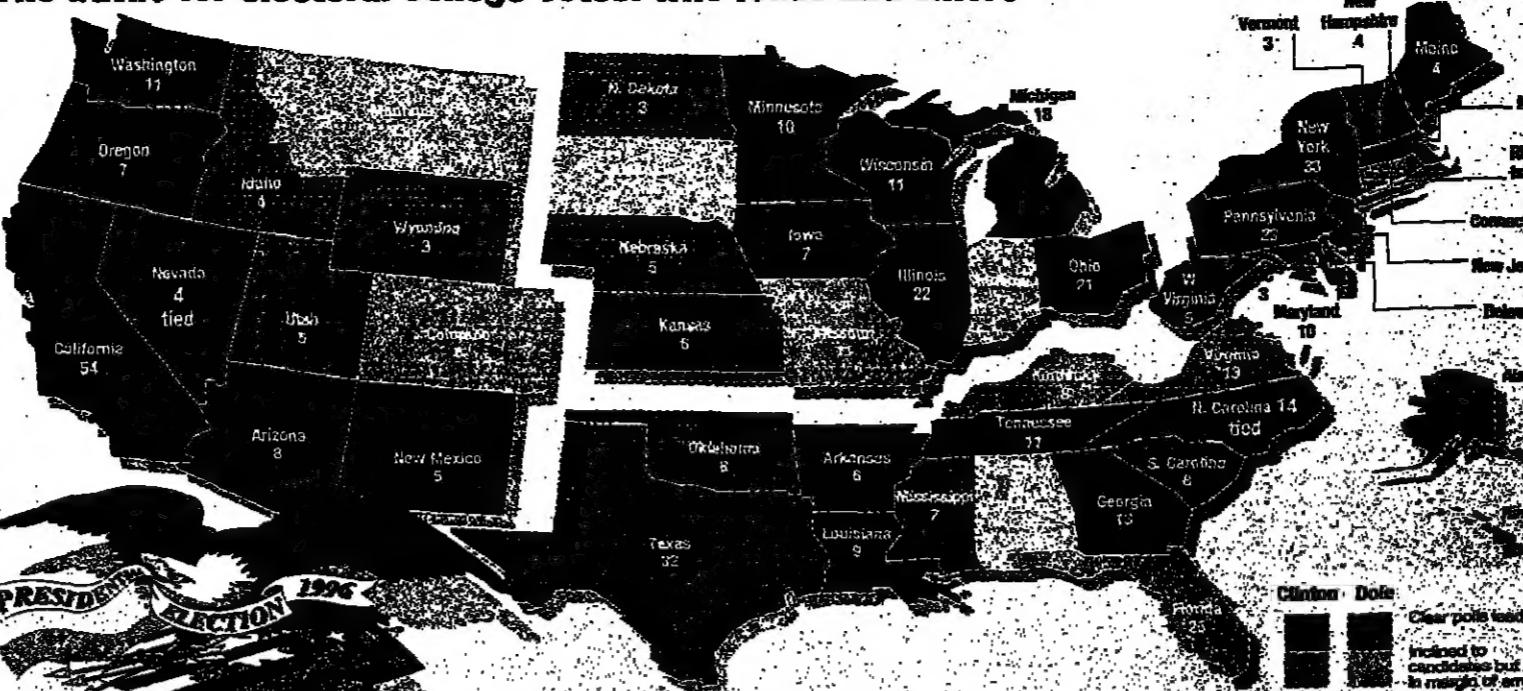
This year 34 of the 100 Senate seats will be determined - 19 now held by Republicans, 15 by Democrats. But the number of Democratic retirees (eight) outnumbers Republicans (six). Battles for these "open" seats will be especially critical.

One, the Alabama Democratic seat held by Mr Howell Heflin, seems likely to go to Republican. Also very much in play are the Democratic seats in New Jersey (formerly Bill Bradley), Arkansas (David Pryor) and Louisiana (Bennet Johnston). The Republicans also have hopes in Georgia (Sam Nunn) but now fading ones in Illinois (Paul Simon).

Apparently vulnerable Republican seats vacated by retirement include Colorado

The battle for electoral college votes: who leads and where

GRAPHIC BY BRAM RADON, SOURCE TIME HOTLINE



The West

The Pacific coast states look solid for Clinton, with California the one that matters most. Remarkably, Dole puts him ahead in Arizona, which has the longest unbroken string, since 1948, of electing Republicans. Dole strongest in the smaller mountain states (Idaho, Wyoming, Utah). Democrats aim to pick up 10 House seats in California and Washington. Close Senate races in Colorado, Oregon and possibly Wyoming, all held by retiring Republicans.

Clinton LEADS: 35

Dole LEADS: 12

Clinton LEADS: 83

Dole LEADS: 34

Clinton LEADS: 39

Dole LEADS: 59

Clinton LEADS: 110

Dole LEADS: 54

Clinton LEADS: 25

Dole LEADS: 25

Clinton LEADS: 108

Dole LEADS: 84

Clinton LEADS: 412

Dole LEADS: 270

Clinton LEADS: 333

Dole LEADS: 108

Clinton LEADS: 54

Dole LEADS: 270

Clinton LEADS: 412

Dole LEADS: 270

for November
ess too?

US Mideast envoy fails to seal pact

By Judy Dempsey in Jerusalem and Lionel Barber in Luxembourg

Mr Dennis Ross, the US co-ordinator to the Middle East peace talks, yesterday returned to Washington, apparently unable to seal an agreement for the Israeli troop redeployment from the West Bank town of Hebron.

His departure coincided with the start of a week-long visit to Europe by Mr Yasir Arafat, president of the Palestinian Authority, and the appointment of Mr Miguel Angel Moratinos, a Spanish diplomat, as the European Union's special envoy to the Middle East.

The appointment raises Europe's diplomatic profile in the region alongside the US. It follows a sustained campaign by France for a greater European role in the peace process.

EU foreign ministers meeting in Luxembourg gave Mr Moratinos a broad mandate to observe the peace process, establish relations with Israeli and Palestinian negotiators, and to report on possible EU actions.

Mr Moratinos, 45, a career diplomat and Middle East expert, was appointed Spanish ambassador to Israel last June. He took part in the 1991 Madrid peace conference and was previously director general of foreign policy for Africa and the Middle East.

Israel last night said it would welcome any EU envoy, but added it could not see what contribution he could make beyond what the US was doing.

Under pressure from President Jacques Chirac of France, the EU has assumed a more active diplomatic role, partly to counter what Paris believes is an excessively pro-Israeli stance in Washington but also to reflect Europe's substantial financial assistance to the Palestinians.

EU officials emphasised that the appointment of Mr

French seek big role in talks for EU diplomat

By David Buchan in Paris

France believes the role of the European Union's new special Middle East envoy should be "as large as that of Dennis Ross [the US's Middle East mediator] and certainly no less," diplomats said in Paris yesterday.

In the wake of President Chirac's swing through the region, including his stormy visit to Israel, France considers the time has come for Europe to use its close contacts with the Palestinians and Arabs in the peace process, complementing US ties to Israel.

In the French view, this would involve the EU in effect taking over the role of co-sponsoring the Middle East peace process which was given to the pro-Arab Soviet Union in 1991, but which the latter was unable to play because it disintegrated as a country later that year.

Diplomats say the EU envoy would have to work closely with Mr Ross, but claim Mr Benjamin Netanyahu, Israeli prime minister, was less opposed in private

Moratinos was not intended to challenge the US's brokered role in the region or to establish a new negotiating presence alongside Mr Ross.

In a statement before his return to the US where he will consult with Mr Warren Christopher, the secretary of state, Mr Ross said the "parties have narrowed the gaps significantly on the security issue" for the Jewish settlers in Hebron.

He added that the past four weeks of talks had begun to "rebuild trust and confidence in each other and to resolve many of the key differences standing in the way of implementation of the 1995 Israeli-Palestinian Interim Agreement".

Palestinian negotiators

The Bank of Israel yesterday reduced its key lending rate for November by 0.3 points to 15.2 per cent, disappointing the business community, which has been calling for greater rate cuts as well as a devaluation of the shekel.

The small reduction confirms the central bank's determination not to bow to pressure from exporters until the budget deficit is further reduced.

point out that Israeli demands on the security issue breach the agreement, particularly the question of "hot pursuit" which, if ever agreed, would give Israeli soldiers the right to enter Palestinian-ruled territory.

The stalemate in the talks is leading the defence ministry to press for a larger slice of next year's budget.

After meeting Mr Benjamin Netanyahu, the Israeli prime minister, last week defence chiefs requested an additional \$1bn to prepare the army for a possible war against Syria. But Mr Yitzhak Mordechai, the Israeli defence minister, who is considered one of the less hawkish Likud ministers, said the diplomatic option must be kept open.

French seek big role in talks for EU diplomat

to EU involvement than he had proclaimed publicly.

They say France is working closely and successfully with the US in the surveillance committee set up last spring to oversee the truce in Lebanon between Israeli forces and those of the Hezbollah guerrillas.

The diplomats claimed Mr Netanyahu - more than his predecessor, Mr Shimon Peres - used Mr Chirac last week to pass messages to Mr Yassir Arafat, the Palestinian leader, and to President Hafez al-Assad of Syria.

Meanwhile, inside France, Mr Chirac's Middle East tour has drawn a mixed reaction. According to an Ifop poll published in the *Liberation* newspaper yesterday, 88 per cent of French thought their president was right to protest publicly about his Israeli bodyguards and their apparent manipulation of his visit to Jerusalem. Equally, however, 45 per cent thought his trip was a diplomatic failure, and 80 per cent believed France should act within the context of a common European foreign policy towards the region.

Hunger killing 4,500 children a month in Iraq

By Michael Littlejohns, UN Correspondent, in New York

The United Nations aid agency, Unicef, said yesterday that 4,500 children under five were dying of hunger and disease each month in Iraq because of a lack of funds to obtain humanitarian supplies. Such funds are exempted from international sanctions imposed on Iraq.

Ms Carol Bellamy, the agency's head, quoted the figure yesterday, describing the situation as "a terrible crisis".

Mr Yasushi Akashi, who co-ordinates UN humanitarian aid, reported that only \$1.6m - from France and the Netherlands - had been contributed to his fund for Iraq. Its three-month goal was \$30m.

He blamed the poor response on "donor fatigue" and the expectation that there would eventually be a breakthrough in the food-for-oil scheme which would release \$1.3bn to Iraq for purchases of food and medicines in the first six months.

Oil boom beckons for tiny African state

Antony Goldman on hopes and doubts over new wealth in impoverished Equatorial Guinea

In a country so small and impoverished as Equatorial Guinea's 350,000 inhabitants, it is money which could change everything. And everything needs changing. Running water and electricity are rare luxuries outside the capital. Education and health care are in abject decay. Malaria, typhoid and a host of other diseases are endemic. Life expectancy is 48.

It was not always so. As Fernando Po, this accident of colonialism, divided

Offshore production from the Zafiro field has begun at 40,000 b/d. Other finds already made by Mobil indicate output could double swiftly.

American independents United Meridian (UMC) and CMS Nomeco say they are poised to make new discoveries in concessions adjacent to Zafiro. "In five years' time," said Mr Miguel Abin Bitez Boriko, secretary of state for mines and energy, "we could be producing half a million barrels a day."

Officials are reluctant to say exactly how much the government can expect to benefit. Even at existing production levels, conservative revenue estimates of about \$100m are twice last year's

gross domestic product. For Equatorial Guinea's 350,000 inhabitants, oil revenues estimated conservatively at \$100m a year could change everything.

between Bioko Island and a small rectangle on the mainland, enjoyed some of the highest living standards and levels of literacy on the continent. Cocoa, coffee and substantial subsidies made

what is the only Spanish-speaking territory south of the Sahara something of a favourite for the isolationists within General Franco's dictatorship.

multi-party politics, albeit in a form which allowed him

last February to win a new seven-year term with more than 97 per cent of the vote.

The oil companies are stepping in, providing funds for

everything from Washington lobbyists to refuse collection.

Even the smallest operator,

CMS Nomeco, buys school

books and runs anti-malaria

programmes.

Mr Obiang blamed the precipitous decline on the 11-year reign of his predecessor and uncle, Francisco Macias Nguema, Equatorial Guinea's first president. Before his overthrow and execution in 1979, the self-styled "Unique Miracle" closed the country's schools and hospitals and sponsored a terror in which a third of the population was killed or fled into exile.

"To have persuaded the Americans to come in after the French and Spanish said we had no oil is the president's greatest triumph," said Mr Augustin Nse, secretary-general of Mr Obiang's Democratic party, earlier this year.

Oil - and ambitious schemes for mineral exploitation - may, however, prove not to be a panacea for all the nation's ills. "We'll be like Kuwait," said one opposition activist. "There'll be fast cars and foreign bank accounts for a few, but for the rest of us nothing will change."

One member of a visiting team from the International Monetary Fund this year complained of "a total absence of transparency" in government accounting. Mr John Bennett, the last US ambassador, found himself accused of witchcraft after complaining of persistent human rights abuses.

There is also an unresolved border question with Nigeria at almost the point where Mobil has discovered oil. "This is something we have to sort out," said a Nigerian diplomat. "But these people have been brainwashed by their mentors to be hostile and defen-

sive... when we are producing 2m b/d, does anyone really think we need their 40,000?"

For the past decade, Equatorial Guinea has sked out an existence on aid handouts. At today's ceremony, there will be a rash of oil workers and others anxious

to cash in on Africa's least well-known investment opportunity. And while the government insists this interest will fuel its emerging democracy, its opponents maintain Mobil is merely feeding a dictatorship which echoes the very worst of General Franco's legacy.

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NEWS: ASIA-PACIFIC

HK contender backs change to legislature

By John Riddings in Hong Kong

Hong Kong's former chief justice, a candidate to head the territory's post-colonial government, yesterday backed China's plan to replace Hong Kong's elected legislature, claiming the move was necessary and legal.

The statement by Sir Ti Liang Yang marked a breach with the Hong Kong government, which is staunchly opposed to formation of a provisional legislature. It came as applications closed for chief execu-

tive, the title of the territory's political leader after Hong Kong returns to Chinese sovereignty on July 1 next year. The Chinese government will appoint the successful candidate, after nomination by a Beijing-backed committee. A decision is due by early December.

Sir Ti Liang is one of four serious contenders for the post of chief executive. His rivals include Mr Tung Chee-hwa, the shipping tycoon, who is regarded as a front-runner, Mr Peter Woo, the businessman, and Mr Simon Li, a

former appeals court judge.

Yesterday, Sir Ti Liang, referring to the failure of Britain and China to agree on the formation of a legislature to span the handover, said: "Something has got to come in to cope with the situation." He said a legal amendment might be added to the Basic Law, China's constitution for post-1997 Hong Kong, to provide for the new legislature.

However, Sir Ti Liang said it would be unacceptable to have both the provisional legislature and the present Legislative Council

operating in the territory before the handover. This echoed the government's view that such a development would prove destabilising.

The former chief justice also stressed the need to uphold the one country/two systems formula underlying the handover and which provides for Hong Kong's autonomy. "In our relationship with China we should strictly follow the philosophy of Hong Kong people ruling Hong Kong," he said.

The aim is for us to be very firm in implementing the Basic Law

which safeguards all our rights."

The selection of the post-colonial governor is one of the most important decisions concerning next year's handover, since the chief executive will be responsible for managing relations with Beijing and upholding Hong Kong's promised autonomy as well as governing the territory. Mr Tung has strong backing from Beijing, but it remains unclear whether China has reached a final decision on its preferred candidate.

Editorial comment, Page 15

Tamil Tigers shoot holes in Sri Lanka's budget

There will be several large holes in the Sri Lankan budget for 1997, to be announced next week, courtesy of the Tamil Tigers. The separatist fighters are proving to be formidable both on the battle ground and on the balance sheet.

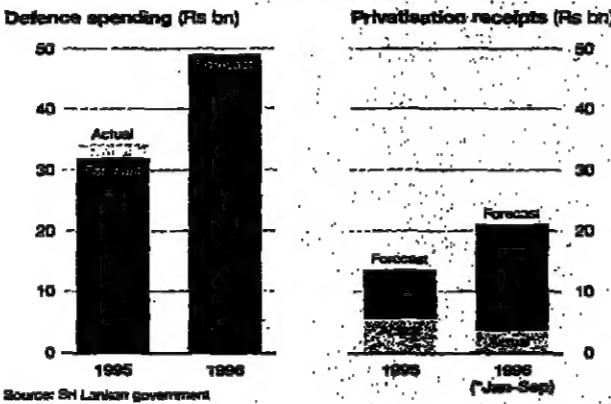
The war is absorbing nearly a quarter of government revenues and as yet President Chandrika Kumaratunga's government shows no sign of curbing defence spending.

The government is banking on mass privatisation but receipts have fallen woefully short. Only 2.9bn rupees (\$81m) out of a projected revenue of SLRs32bn has come from the sale of state enterprises, while expenditure on the war has exceeded estimates.

The war was estimated to cost SLRs38bn this year, up from an actual expenditure of SLRs31.97bn last year when fighting was restricted to just eight months of the year. This year, however, fighting escalated and so did defence expenditure. The final figure for 1996 is expected to be around SLRs50bn, or about 30 per cent over budget.

Inflation is running at 21.5 per cent. The growth of the economy this year is expected to be about 3 per cent, down from an earlier government forecast of 5 per cent and a figure of 5.5 per cent in 1995.

Sri Lanka: the cost of war



"The worst is yet to come," said Mr Arjuna Mahendran, senior economist with Crosby financial services.

Faced with the poor response from investors to state sell-offs, the government two months ago took the unorthodox step of becoming a customer for its own privatisation programme.

A plantation company was bought by a front organisation owned by the state-run Bank of Ceylon, and Mr G.L. Peiris, deputy finance minister, quickly defended the action as a one-off purchase to save the market.

Officials say the economy is now more than ever dependent on the privatisation process to raise money to finance the budget deficit, estimated at 10 per cent of

gross domestic product.

The privatisation authority, the Public Enterprise Reform Committee, last month advertised a 35 per cent stake in the state-owned Sri Lanka Telecom and bids are being received for the national airline, Air Lanka.

Almost all the American, European and Asian giants in telecommunications have shown interest in joining Sri Lanka Telecom but the trade unions have vowed to resist any moves to sell the company.

Stock brokers, however, say investors are unimpressed. Many are waiting in the wings because of the contradictory statements by government ministers and a new law to re-allocate state enterprises privatised by the former government.

Mr Peiris said companies

were being invited to bid for the project is on," said Mr Manilal de Mel, BOI deputy director general. "It is up to the politicians to sort out their problems." For President Kumaratunga, that first and foremost, means ending the war.

sold under a privatisation plan of the previous administration but which stopped production and laid off staff would be taken back. The influential Chamber of Commerce and Industry described the measure as "draconian".

A spokesman for the chamber said several foreign investors were already re-thinking their plans to expand. Contradictions in the government were also worrying many, he said.

For example, Mr M.H.M. Ashraff, the ports minister, is on record saying that he will not sell the Queen Elizabeth Quay (QE). But a consortium including P&O of the UK and its Australian subsidiary has been issued a letter of intent by the government to develop the QE. Meanwhile Sri Lanka's investment regulatory authority, the Board of Investment (BOI) said that it was going ahead with the QE project that could bring in an eventual investment of \$650m.

"As far as we are concerned the project is on," said Mr Manilal de Mel, BOI deputy director general. "It is up to the politicians to sort out their problems." For President Kumaratunga, that first and foremost, means ending the war.

Amal Jayasinghe

Benefit for southern Philippines Peace attracts Islamic banks

By Edward Luce in Manila

The Philippine government said yesterday that five Islamic banks had requested permission to establish branches in the southern Philippines just six weeks after Manila initialised a peace deal with the country's Abu Muslem.

Malaysian and other south east Asian investors unveiled \$2bn pesos (\$1.5bn) of pledged investment in the Moslem areas at a business conference in Mindanao. Last year the Philippine central bank limited new entrants to 10 foreign banks pending a change in the regulations.

Mr Nur Misuari, chairman of the autonomous council in the southern Philippines and leader of the former rebel forces, said Moslem savers had rejected suggestions that mainstream Philippine banks set up Islamic branches in the south because they would need to recycle "sin funds" from other branches. Islamic banks would attract many deposits, he added.

Officials from Sabah and the Philippine government also conducted informal talks about the repatriation of 300,000 Filipino Moslem refugees from the Malaysian state in the wake of the completion of the peace agreement. The refugees, who fled Mindanao during the heaviest fighting in the 1970s and 1980s, have formed the backbone of the construction sector and other labour-intensive industries in Sabah.

"We are in two minds about our Filipino refugees," said one Malaysian businessman. "They must eventually go home but they are important to the Sabah economy."

Bumiputra, Bank of Tabung Haji (all from Malaysia) and the Islamic Development Bank of Brunei, would require special legislation to set up in Mindanao. Last year the Philippine central bank limited new entrants to 10 foreign banks pending a change in the regulations.

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ASIA-PACIFIC NEWS DIGEST

China 'brings home copper'

China's reported repatriation of large quantities of copper from London Metal Exchange-approved warehouses may have been prompted by higher prices available on the domestic market, a Chinese official said yesterday. But Mr Wang Zhongkui of the China National Nonferrous Metals Industry Corporation said he had no explicit knowledge of up to 100,000 tonnes of copper being held in bonded warehouses in Shanghai.

"At the moment I am unaware of any large-scale purchasing by the government," Mr Wang told a metals conference in Beijing, but he added it was "possible" the authorities were taking advantage of price differentials. Shanghai copper futures ended sharply up yesterday with later-maturing contracts breaching the Yn19,500 (\$2,407) resistance level due to last Friday's heavy LME gains.

• Profits of state-owned industries slumped by 26.5 per cent to Yn22.6bn (\$2.76m) in the first nine months compared with the same period last year. Companies operating in the red saw losses mount further by 23 per cent to Yn4bn, reflecting the effects of a continuing credit squeeze. *Tony Walker and Sophie Roell, Beijing*

Asia's infrastructure needs

The much-vaunted contribution of the private sector to Asia's infrastructure development has been marginal, at only 10 per cent of spending so far, and is likely to grow only slowly over the coming decade, Mr Lee Hong-sun, vice president of the Asian Development Bank said. Ten years from now it would account for only 20 per cent of infrastructure spending, so governments will still have to find the bulk of the \$1,500bn needed to upgrade regional infrastructure, he told a UN ministerial conference.

Peter Montagnon, New Delhi

Singapore changes voting law

Singapore's parliament yesterday passed an electoral reform bill which observers said would make it more difficult for opposition politicians to win. The bill to amend the constitution was passed by a vote of 84-4. Mr Goh Chok Tong, the prime minister, denied that the reform was designed to increase the parliamentary representation of his People's Action party.

The amendments increase the number of candidates who may stand as teams in so-called group "representation constituencies" (GRCs) from four to six. The team with the most votes takes the seats. There are now 15 four-seat GRCs and 21 single-seat wards. Under the reforms, there could be as few as eight single-seat constituencies. Because the opposition has been able to field fewer candidates than the ruling party, the increase in the number of GRCs and the number of candidates in each GRC team may worsen the opposition's chances, analysts said.

James Kyne, Kuala Lumpur

EU restricts Burma contacts

The European Union yesterday imposed strict limits on contacts with Burmese officials and their families in response to what the 15-nation bloc sees as Burma's continuing failure to respect human rights. EU foreign ministers agreed to the move - part of a gradual build-up of pressure on Rangoon's military government - without debate. "There is a very serious situation in Burma with a lack of respect for human rights and democracy," said Mr Dick Spring, Irish foreign minister. *Reuter, Luxembourg*

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Jobless total is predicted to stay at 2m

By Andrew Bolger,
Employment Correspondent

The UK will create 1.5m jobs over the next 10 years - but half will be part-time and the rest will come from self-employment, says a government-funded forecast. It says the number of full-time employees is unlikely to increase.

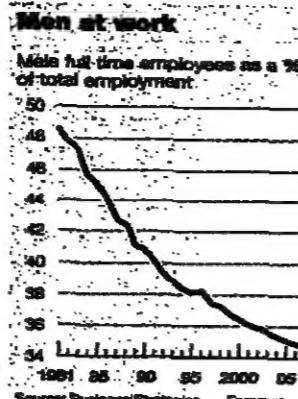
Unemployment is likely to stay at about 2m even if there is a change of government at the next general election, adds Business Strategies, an independent consultancy whose research was funded by the government's Department for Education and Employment. The election must be held by May next year at the latest.

Mr Neil Blair, research director for the consultancy, said nothing in the policy of the opposition Labour party "would lead us to change our view of the unemployment outlook".

The proportion of total employment held by male full-timers is forecast to continue falling - reaching 35 per cent by 2006 compared with 49 per cent in 1991. Mr Blair said: "With employers creating almost no extra full-time jobs, 750,000 more people will opt for self-employment between now and 2006."

The report forecasts that there will also be 770,000 new jobs for employees by 2006 but that almost all will be part-time. Many will be in personal services, ranging from bar work to childcare. There will also be more part-time jobs for shop-workers.

Women are expected to continue dominating part-time work, with about an 80 per cent share of those jobs. Their share of self-employment is expected to rise slightly, from 25 per cent this year to 27 per cent by 2006. This means women will capture two-thirds of the total growth in work. Mr



Richard Holt, director of Business Strategies, said: "The extra jobs will do little to bring down the number of people registered as unemployed, which we forecast will fall by just 131,000 between now and 2006, to a figure of 1.9m."

"The fastest rises in employment overall (27 per cent) will be for many professional workers such as lawyers, accountants and even doctors - although not teachers and lecturers. The number of professional jobs will rise by over a quarter but few people registered as unemployed will benefit directly from these opportunities."

Financial and business services is the sector of the economy which is forecast to experience the fastest growth between now and 2006. The report says: "Both main parts of the sector are likely to experience rising demand over the long term, which will offset pressure on employment in banking and finance caused by new technology and a likely restructuring of the sector."

Growth is forecast among managers and sales staff, with women getting the lion's share in both cases. Employment is expected to decline among secretarial and clerical staff, and for skilled and unskilled production workers.

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Ex-envoy criticises EU foreign policy

By Bruce Clark,
Diplomatic Correspondent

The European Union's Common Foreign and Security Policy needs strengthening because it still falls far short of its potential as a force in world affairs, says a paper published yesterday by a pro-European think-tank in Britain.

The paper was written by Sir David Hannay, who has served as UK ambassador to the EU and the United Nations.

He says that continuing with the current foreign policymaking procedure, under which all EU members have a veto, is likely to "lead to considerable frustration" as the Union enlarges.

Without saying which version of majority voting would be preferable, the paper suggests that one

alternative would be to follow the example of the UN Security Council and restrict the right of veto to the most important member states.

The paper says the CFSP needs permanent financing arrangements, separate from the EU budget. To scrutinise the CFSP, it says that a US-style committee on foreign relations might be formed by legislators from the EU's member states.

Action Centre for Europe, which published the paper, is a lobby group headed by senior pro-European politicians, mostly Conservative.

Mr Douglas Hurd, the former foreign secretary, says in a foreword that "the Americans are occasionally baffled by the incoherence of the foreign policies of European countries".

"They would welcome a

serious effort by the Euro-

peans to set ourselves up not as rivals, but as partners," Mr Hurd adds.

To upgrade the EU's ability to plan ahead and respond to crises, the paper suggests broadening the small CFSP secretariat in Brussels to include planning and analysis departments and a "conflict prevention" unit.

The paper endorses the idea of a "Mr or Miss CFSP" - first proposed by France and now supported by Britain - to present EU policies to the outside world. It adds that, initially at least, this should be a fixed-term, non-renewable appointment.

The European Union's Common Foreign and Security Policy: a Menu for Reform, Sir David Hannay, Action Centre for Europe, 2 Queen Anne's Gate, London SW1H 9AA.



Sir David Hannay: his paper warns of future frustration

Europe's pensions 'silence' attacked

By James Blitz,
Political Correspondent

An all-party committee of the House of Commons will this week call for unfunded pension liabilities to become a new criterion for European monetary union, arguing that the UK could be severely disadvantaged by current arrangements.

In a detailed report that aims to raise the profile of the issue in Britain and the EU, the all-party social security committee will insist that unfunded pensions liabilities should be "taken into account" when considering the eligibility of each country for the single currency. Unfunded pension commitments are those not covered by specific assets.

The committee says the liabilities should become a criterion for policing the new arrangements for monetary union after it has taken place. It will call on ministers to encourage their European partners to publish figures on unfunded schemes in their own countries.

Europesque Conservative MPs have repeatedly expressed fears that the large number of unfunded pension schemes in France and Germany would severely disadvantage the UK if sterling joined a single currency.

He is therefore interested in Labour mobility on the one hand - an economy's ability to shed jobs in unproductive industries and create new ones - and whether the UK economy is still too dependent on US performance relative to mainland Europe.

There is another point on which the two diverge. Mr Cook believes that the legislative and administrative burden of joining in the first wave is excessive, a view which is becoming fashionable in Labour circles.

However, it is not shared by Mr Brown, who believes that the timetable can be met if the will exists to proceed.

Robert Peston

Top Labour figures at odds over Emu

Attitudes towards fate of sterling vary widely in biggest opposition party

There are two issues of great sensitivity in the opposition Labour party: whether sterling should join a single European currency in the first wave in 1999 and whether Mr Robin Cook and Mr Gordon Brown could co-exist in any future Labour cabinet.

The mutual rivalry - bordering on enmity - between the two senior party figures is legendary. This is unfortunate for Labour's leader, Mr Tony Blair, because Mr Cook is the party's shadow foreign secretary and Mr Brown shadow chancellor of the exchequer. They are therefore Mr Blair's two most important lieutenants.

Mr Cook raised the stakes in his contest with Mr Brown on Sunday, when he gave a BBC television interview devoted in large part to refining Labour's approach to monetary union.

Mr Brown, by contrast, is less grudging in his support for monetary union. He does not believe that sterling should be a first-round member at any cost - but is per-

suaded that the economic price of staying outside may be the decisive factor for joining.

On the other hand, Mr Cook could not afford to be seen as the perpetrator of a public dispute with Mr Brown, even though he is far more sceptical than Mr Cook in respect of seeing the risks of joining in the first wave.

So on the day after Mr Cook's declaration of faith, which of the two came off best? On the margin, Mr Cook may have damaged his chances of becoming chancellor, a position he is widely believed to covet.

The reason is that he used the "D" word - for devaluation - which is frowned on in top Labour circles. Mr Cook said it would "be very risky for Britain to give up the option in future of devaluing if that was necessary", unless a Labour government was confident about the robustness of the UK economy.

The whole thrust of Gordon's approach has been to

convince the markets that Labour is no longer the "party of devaluation", said an MP close to Mr Brown.

"Can you imagine the interest rate penalty the UK would have to pay if we stayed outside the single currency in the first round and Robin was chancellor?"

In circles around Mr Brown, there was also concern at Mr Cook's elaboration of the conditions which the UK would have to meet to prove itself fit for a single currency.

He talked about the "ability to match the investment, to match the skills, to match the output, to match the output unit costs of the European economies, particularly Germany".

This appears different from Mr Brown's statements on the "degree of integration and convergence" necessary for sterling participation.

In a speech he gave last spring in Germany, Mr Brown said that "real con-

vergence does not of course mean that we have to have exactly the same levels of output or productivity".

Mr Brown is concerned about the capacity of the UK economy to absorb external shocks.

He is therefore interested in Labour mobility on the one hand - an economy's ability to shed jobs in unproductive industries and create new ones - and whether the UK economy is still too dependent on US performance relative to mainland Europe.

There is another point on which the two diverge. Mr Cook believes that the legislative and administrative burden of joining in the first wave is excessive, a view which is becoming fashionable in Labour circles.

However, it is not shared by Mr Brown, who believes that the timetable can be met if the will exists to proceed.

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TECHNOLOGY

John Griffiths on bold but persuasive claims for one 21st century car

Chemists turn over a new leaf

Any new weapon in the war against cancer is welcome. However, once a potential anti-cancer drug is discovered it then has to be made in sufficient quantities.

This is not always so easy, as shown by the problems developing commercially useful quantities of paclitaxel, a potent anti-cancer drug.

First isolated in 1967, paclitaxel received little attention until the late 1970s when it was discovered that it had a novel mode of action against tumour cells. It "froze" the formation of microtubules, "spindles" which guide the chromosomes during cell division.

Work in the 1980s confirmed the drug's promise and Bristol Myers Squibb, whose trade name for the drug is Taxol, acquired the rights to it from the US National Cancer Institute. It was in 1989 that the production difficulties emerged. The main natural source for paclitaxel is the bark of the Pacific yew tree, but it took 13,500kg of bark to produce just 1kg of the drug. It was estimated that to produce the 200kg to 300kg required each year would wipe out the Pacific yew - listed among the world's endangered conifer species - within five years.

David Newman, a chemist at the institute's natural products branch, says: "It caused a major problem but not a panic. The treatment for one woman (suffering from) ovarian cancer required six 6in-diameter yew trees."

Amid protests from environmentalists, a worldwide search began for an alternative way to produce paclitaxel in commercial quantities. Synthesising the drug chemically was commercially unfeasible, as it contains 112 atoms and the process would require some 30 separate steps. So an effort was made to look at close relatives of the tree for paclitaxel and its precursors.

Eventually, a compound called baccatin-3 was isolated from the needles of the common ornamental yew. This was then used in a semi-synthetic route which had been developed by Robert Holton of Florida State University.

The great advantage of this method was that the needles could be harvested each year without killing any trees. In 1993 Bristol Myers Squibb announced that it would no longer need to harvest Pacific yews, and the new process remains the main method by which the drug is produced.

But now a team of researchers at Mitsui Petrochemical Industries in Japan has come up with a different approach. Yukihito Yuki and colleagues recently announced they had produced significant quantities of paclitaxel by biosynthesis or plant cell culture. The amounts produced, tens of grams in two weeks at their laboratory, may not sound much but it could be a landmark in this problematic compound.

Biosynthesis by plant cell culture - similar to the fermentation method used to produce most common antibiotics - has long been considered as an attractive method of producing paclitaxel. However, plant cell culture has so far found little commercial application and in contrast to bacterial cultures the plant cells grow much more slowly and are much less robust.

The team at Mitsui managed to increase yields of paclitaxel by about six times over previous plant cell culture efforts by adding methyl jasmonate, which stimulates production of the drug.

The process is still a long way from achieving commercial scale. Plant cell culture works in a liquid fermentation "broth" and the Mitsui team managed to operate the technique in a volume of 300 litres. Any commercial process would require production at volumes in the range of 100,000 litres.

The story of paclitaxel has not ended yet. The drug is used in breast and ovarian cancers, and there are promising results in trials for lung cancer and melanoma. Chemists will be looking to "improve" the paclitaxel molecule and biotechnology could play a role in this. But at least scarcity is not the problem.

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William Macdonald

Ben Rosen is finding out - at the cost of some personal embarrassment - that when it comes to development glitches, cars can be more than a match for computers.

Undeterred by two minor fiascos with a prototype vehicle last month and in August, the chairman and founder of Compagny, the computer company which outsmarted IBM to become the world's biggest personal computer provider, is preparing to dip into his own pockets for up to another \$15m (£9.8m). He hopes that will bring to fruition his brother Harold's, and now his own, dream of a revolutionary new power unit for cars.

The quest has already cost Rosen more than \$13m personally. He insists he will persevere until the new drive system, combining a small gas turbine engine with an energy-storing flywheel - and claimed to provide high performance with almost negligible exhaust emissions - has become reality.

The fiascos occurred when Rosen and his colleagues in Rosen Motors, a company Ben Rosen founded three years ago to progress the project, twice invited the media to watch a Saturn saloon fitted with the system put through its paces.

The car never ran. On the first occasion the turbine would not fire up - the result of a fuel-pump failure. On the next, more seriously, an electronics bug overloaded the flywheel bearings, causing them to fail. "A lot of other niggling little things went wrong," acknowledges Rosen. "Basically, we tried to run it prematurely." The consoling aspect, he insists, is that nothing went wrong "that was of concern to us in relation to the fundamental concept".

Rosen and brother Harold, Rosen Motors' president and chief executive, say they have already demonstrated the power unit repeatedly and successfully on a static dynamometer and that once again "we are real close to running the first road tests with the Saturn." Already, the group has developed a more advanced version, which is expected to start trials about the middle of next year in a Mercedes-Benz E-Class.

"Put simply, we have the key to the 21st century automobile," maintains Rosen. "This mean, lean and green powertrain is the first major shift in automobile technology since the invention of the internal combustion engine."

Statements like that have typically been made by impecunious inventors seeking industry finance throughout the century-long history of the motor industry. Usually, they have sent justifiably sceptical motor industry

executives scuttling for cover.

• Possess mechanical simplicity, with only a handful of moving parts and almost total freedom from maintenance.

• Generate no more air pollution than battery-powered cars recharged by fossil fuel power stations - the Rosens' main motivation for pursuing the project.

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• Have fuel economy of up to 80 miles per gallon.

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Recital

Taste of Gerhard

Although there has been no major festival featuring his music since the London Schoenberg/Gerhard series in 1973, the Anglo-Spanish composer Roberto Gerhard has at least managed to keep up a sporadic presence in this the centenary year of his birth.

We can now hear a sizeable proportion of his output on CD and have even been able to experience a few of his major works in the concert hall recently, not to mention his opera *The Duenna*, due out on CD next year from Chandos following its revival by Opera North last year. Even so, justice has hardly been done to this major master, whose late works in particular are as inventive, innovative and rewarding as any from this half of the century.

So it was disappointing that a recital at the Purcell Room last Thursday by the Kreutzer Quartet, due to feature Gerhard's two string quartets, was unavoidably cancelled, owing to the injury of the group's cellist. But its replacement by a hastily assembled programme by the Kreutzer's leader, Peter Sheppard, and the pianist Aaron Shori did at least provide a well-thought-through substitute of major 20th-century violin and piano works, and offered some compensation for Gerhardists in the form of the master's eloquently wrought *Chaconne* for solo violin, which Sheppard dispatched with a panache which belied its superhuman technical demands.

The inclusion of pieces by the other composers due to have featured at the quartet concert, Schoenberg - who was Gerhard's teacher - and Hugh Wood - who has acknowledged Gerhard's (and Schoenberg's) influence on his own music - also helped to capture something of the spirit of the adventurous recital.

Wood's recent *Poem*, an impassioned song without words, seemed to owe most to Gerhard's Spanish-serial works of the 1950s. Schoenberg's late *Phantastic* was remarkably prescient of the mature Gerhard in its single-movement and elusive thematic working, even if its combative surface is temperamentally the obverse of the scintillating euphoria of his pupil's most characteristic inventions.

That joy repeatedly surfaces in Debussy's late *Sonatas* which, together with Satie's *Choses vues & d'rites à gauche*, reminded us of Gerhard's early French leanings.

Framing the whole recital were two pre-war classics, full-blooded homages to their composers' respective folk traditions, which Sheppard and Shori attacked with typical empathy and virtuosity, responding as frequently to the rapid mood-swings of Janáček's *Sonata* as to the exuberant mélange of Ives's *Sonatas* No.2.

It would be good to hear these players do Gerhard's late masterpiece for the medium, *Genzicht*.

Antony Bye

INTERNATIONAL ARTS GUIDE

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ARTS
Earlier this year the world of classical music was shocked in its quiet way when it was announced that the Latvian conductor Mariss Jansons had fallen victim to a heart attack and would be cancelling all further engagements. And as so often, it happened to an apparently unlikely person.

Although his father, the conductor Arvid Jansons, also suffered from heart problems, Mariss, broad-shouldered and strong-jawed, appeared to be an unassailably durable figure, though one noticed that he no longer cut the

slim, dashing figure that he used to. Without warning, a conductor who was always the critical flavour of the month was not even one of the flavours on offer.

Now, after a six-month convalescence, he is on his way back, albeit little by little, and flatteringly he chose the BBC National Orchestra of Wales above those other fine orchestras with which he has more lately been intimately associated - the Oslo and St Petersburg Philharmonics - to show us that he has lost none of his interpretative gifts.

Conducting in the sparsely

ARTS Concert/Stephen Pettitt

Jansons conducts a memorable comeback

attended and testily dry acoustics of Sheffield City Hall, he gave a majestic and memorable reading of Bruckner's Seventh Symphony.

There were long pauses between movements - perhaps a musical rather than a physical decision - but from a distance a newly slimmed Jansons looked healthy enough.

His performance utterly transcended the technical blips like the patches of scrawny tone, unmercifully exposed, that now and again came from the upper strings.

In any case, there is nothing

wrong with BBCNOW's ripe woodwind and rounded brass sections (the latter considerably expanded in this work), nor with the entire orchestra's ability to pull together and play as one. They are certainly a long way from being "the world's worst orchestra", as a colleague rather ill-advisedly described them elsewhere not long ago.

What characterised the reading above all, and what was evident in the finely coloured, gradual unfolding of the first movement, was Jansons's beautifully measured, unhurried phrasing, which ideally blended the intuitive with the calculated.

There was microscopic attention to internal balance and the finest tuning of the music's characteristic layered dynamics. And

it was just fancy that the conductor's brush with death had left him with an ever so slightly slightly deeper, riper insight than before. This is, after all, a work that can be seen as a reflection upon death and transfiguration.

Since reactions in these circumstances can rarely be entirely objective it is impossible to say for certain. But it is possible to report that the Adagio, Bruckner's great outpouring in homage to Wagner, had an affecting sweep that intensified this music's already intense power, and that, just as in the preceding Scherzo, Jansons achieved what he did by allowing the music to be itself rather than through too much imposition from the outside.

By the close of the journey, after a finale judged to perfection, Bruckner's music had certainly achieved its purpose of elevating our senses to higher spiritual planes. It is wonderful to have Jansons back.

Narrow academy

William Packer on this year's short-list for the Turner Prize and the work of the Jerwood award winners

Today the work of the artists short-listed for this year's Turner Prize, worth £20,000 to the winner, goes on show at the Tate, while last month saw the two Jerwood Prizes awarded, £30,000 for painting, and £15,000 for ceramics. These exercises, distinct in themselves, stand apart from the many other prize exhibitions in the calendar, not by virtue of their generosity but in respect of their short-lists.

They not only stoke up particular excitement about the result as an event, but also propose a more general importance. Whether it is justified is another matter.

This is the Turner's problem, for with the authority of the Tate behind it, and the name of England's greatest painter to enhance it, the inference is clear.

And yet, having been thus set up, it is immediately qualified. "To a British artist under 50 for an outstanding exhibition or other presentation of their (sic) work", runs the rubric.

Leaving aside the *ageist* incorrigibility of the organisers, quite why the under-50s should be thus privileged has never been satisfactorily explained. Is it really only the work of the young that is interesting, radical, relevant, "cutting-edge"?

The Turner Prize... is raising awareness of new art and allowing younger, fresher voices into the Tate's bubbles Janey Walker of Channel 4, the sponsors, though the rules have nothing of any such purpose or prescription.

The reality is that the last thing any Turner jury is prepared to do is to pick for its short-list any artist not of the narrow academy of the current avant-garde.

So who are this year's fresh outstanding voices? Douglas Gordon (29), he of the '24 hour Psycho' shown at the Hayward earlier this year, works with film and video. He now shows a work based upon a pre-war 'Dr Jekyll and Mr Hyde', using two large screens, again slowing the speed somewhat and making comparative cross-play between positive and negative reversal and inversion.

Gary Hume (34) is a painter who makes *ham-fistedness* a salient virtue.

He uses thick house-paint in bright colours and broad flat doses, simplifying his imagery to near-invisibility - a pair of feet, a hand, an archly ironical brown and orange snowman. His green 'Whistler' in which we can just make out two fingers in a mouth

'plays' on references to the celebrated artist of the same name."

Simon Patterson (26) shows a map of the London Underground on which the stations are named after different categories of people, saints, artists, footballers and so forth. He has also covered an entire wall with a system of cosmic orbits, each assigned to an ideal world or state - Xanadu, Shangri La, Cloud 9 and so on. In the centre of the room are three seals on steel frames, each sporting the name of a writer, Lawrence Sterne, Currier Bell and Raymond Chandler. He "enjoys the relationship between language and objects... making connections... discovering their literal and metaphysical potential..."

Craigie Horsfield (46) is a photographer whose subject is the world about him, in this instance set of portraits, a nude, a dance hall, a view across Barcelona's roofs at night. He leaves his negatives for years before working on them, bringing the past as it were into the present. He prints them up inordinately enlarged, which

inevitably lends a portentous presence to what might otherwise be unremarkable. The winner will be declared on November 28. *Messieurs, mesdames, fêtes vos jeux*.

By coincidence, though the Jerwood prize shows are now over, the two winners have shows in London. John Hubbard (55), at Purdy/Hicks, is as fine a painter from the landscape as we have, and one, *pace* the Turner, clearly changing, developing and maturing all the time, and in the most engaged and radical way. His work lately has become more direct, less abstracted in its response, all clouds and storms and waves breaking on the shore. The vertiginous views above the sands of an estuary, spread out like a map far below, are subtle yet adventurous, his best yet.

Philip Eglin (37), at Contemporary Applied Arts, stands in a tradition of figurative ceramic that goes back variously through Staffordshire and Chelsea all the way to the Han and Tang dynasties, yet remains entirely of the present. He demonstrates, moreover, along with Claire Curnow who shares the gallery, that much of the most adventurous work with the modelled figure is being done in the field of ceramic. His work is properly sculpture by another name, beautifully modelled with a relaxed assurance that recalls Dalí as much as anyone, for all the activity of the surface decoration. These are remarkable and beautiful things.

The Turner Prize Exhibition: Tate Gallery, Millbank SW1, until January 12, sponsored by Channel 4. John Hubbard - Scottish Paintings: Purdy/Hicks, 65 Hoxton Street SE1. Philip Eglin: Contemporary Applied Arts, 2 Percy Street W1, until November 2.



'Seated Nudes' by Jerwood prize winner Philip Eglin

Theatre/Alastair Macaulay

Tension in 'A Doll's House'

Intensely exciting though it is to experience Ibsen's 1879 play *A Doll's House* for the first time, it is more exciting yet to return to it. Nora the doll-wife will learn to insist that her first duty is not to her husband and children but to herself as a human being. You think you know what will happen - and yet has on you the edge of your seat. And when it does happen, it takes you by surprise.

The riveting and central feature of this staging is the performance of Janet McTeer as Nora. Seldom offstage, in a play lasting over three hours, she carries everything with her. She has warmth, variety, immediacy, spontaneity; I have never seen her act so well.

Daringly, she employs such an array of still-girlish laughter, dismissive wrist-flipping gestures (as if to say "I won't think about it

until tomorrow"), and nervous gush that she makes Nora half-irritating, half-inflating; which is, surely, her intention. All of these thoughtless ways and manners she shows are spiritually diminutive: they are part of the immature skin she starts to shed at the end of the play. And as she finds herself in one dilemma after another, she, wonderfully, shuts and then opens her eyes, opens them wide; so that, as the final act proceeds, you truly feel the scales falling from her eyes.

But it seems wrong to analyse her performance in terms of individual features. Indeed, at two or

three points, I think she miscalculates or misfires. (In particular, she overdoes the overwrought shrieks in her not-good-enough tam-tam. In 1879, by the way, the original Nora, had begun her stage career as a Bourneville-trained ballerina in Copenhagen, and would have danced many tarantellas in such ballets as *Napoli*.) But the overriding virtue of McTeer's performance is its unhesitating immediacy. This Nora is all self-contradictions. When Nils Krogstad leaves her, having made his bombshell announcement that he will not be dragged to the gutter without tak-

ing her with him, she is left alone. She stands quite still then she slowly sits down and in the next moment she says "Rubbish" and laughs it off; or, rather, she tries laughing it off for the soliloquy that follows is all va-voom.

Most thrilling of all is her pac-

ing of the final scene with her husband. When she comes to the play's most famous line, the great feminist credo "I believe that I am a human being!", she has been backed by him, almost literally, up against a wall, and it comes from her as a hoarse, almost voiceless, scream, not loud; then, through the marvellous shock

that follows that climax, she adds, with less tension and more voice, "Or at least I will try to become one." She is still weak, and knows it, and her humility and realism are extremely moving. Only later does she achieve anger (feminist anger, too).

When he says "No man sacrifices his integrity for the person he loves", she shouts back "Hundreds and thousands of women have!" with sudden, rasping rage, from the chest.

McTeer wears her hair flowing fully down to her waist throughout, and her slender figure has seldom appeared to better advan-

tage. She is a tall woman, but she keeps her body language and voice always in minor, domestic scale. Owen Teale, as her husband, is tall and broad enough to make her seem frail, and he conveys in every way the assurance she lacks. The way he reaches the verge of marital rape, earlier in the last act, is very finely judged. But fine judgment is in evidence almost everywhere here. Witness the casting of Gabrielle Lloyd as Kristine Lunde, John Carlisle as Dr Rank, and Peter Gowar as Krogstad: roles all played in the round, revealing themselves and surprising us from one minute to the next.

For this, every praise to Anthony Page's direction. I query several decisions made by Frank McGuinness, author of the new English version used here, but the text plays well.

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Martin Wolf

An unhealthy trade-off

Little discipline has been imposed on the growing number of preferential trade agreements which can cause more economic harm than good

Names matter. Who but a staunch protectionist could have anything against a "free trade agreement"? "Preferential trade agreements" sound less benign, while "discriminatory trade agreements", yet another name for the same thing, sound nasty. They can indeed be nasty - and need to be controlled.

Between 1947 and 1992, 85 preferential trade agreements were notified to the General Agreement on Tariffs and Trade (GATT), predecessor of the World Trade Organisation (WTO). Since 1992 another 60 have been added. Altogether, 80 of the 145 are in force.

All but three WTO members - Japan, Korea and Hong Kong - are members of one, or more preferential trade arrangement. Some of the latter are of little global significance - that between Slovakia and Slovenia, for example. But some, such as Mercosur in south America and Asean in south-east Asia, include big developing countries. Those within Europe and north America embrace the globe's foremost trading powers.

Notwithstanding their importance, virtually no discipline has been imposed on the growth of these arrangements. While only one has been found in full conformity with the GATT, none has ever been rejected. Effectively, these arrangements operate in limbo.

Meanwhile, alongside the preferential arrangements, strictly defined, have come a number of still broader initiatives, such as the Asia-Pacific Economic Cooperation forum (Apec) and, more speculatively, the Transatlantic Free Trade Arrangement (Tafta). Since these potentially cover most trade, they threaten the development of mutually inconsistent rules and imperil the WTO's relevance as a rule-making forum.

Proponents argue that:

- Rules can more easily be

negotiated in a closed group of like-minded countries than in the unwieldy WTO.

- Where global liberalisation is infeasible, regional trade agreements are the best alternative.
- Regional trade agreements stimulate global liberalisation.
- Regional trade liberalisation is beneficial because proximity determines whether countries are natural partners.

- Preferential trade liberalisation between "natural" trading partners is economically beneficial.

None of these arguments is compelling.

First, even if rules could be agreed more easily among like-minded countries, there is no reason why these countries should be neighbours. Nor is there any reason why the membership any such group should be limited in advance. It would be far better to open discussions intended to develop rules in areas not covered by the WTO to any country prepared to join.

Second, the argument that global trade liberalisation is infeasible is hardly credible after successful completion of the Uruguay Round of

multilateral trade negotiations. Nor do the US and EU need to go outside the WTO to pursue liberalisation. On the contrary, they have themselves been among the best alternative.

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Fourth, proximity does not determine whether a country is a "natural" trading partner. Other things being equal, a country will trade more with a neighbour than half a world away. But a country will do more trade with a big, but distant, country than with a small neighbour. In 1993 Chile sent 6 per cent of its exports to Argentina and 16 per cent to the US.

Finally, even with "natural" trading partners - by which is meant countries with which bilateral trade is large - preferential trade can be harmful. The point is explained in a rigorous analysis by Professors Jagdish Bhagwati of Columbia University and Arvind Panagariya of the University of Maryland.¹ If two countries already trade a great deal with each other, room for beneficial additional trade may be small. But if trade is diverted towards a high-cost partner, away from lower-cost suppliers elsewhere, the losses may be large. One source of such losses would be the transfer of the tariff revenue on imports from the rest of the world to uncompetitive producers in partner countries.

As if to demonstrate the truth of these propositions, a draft report by Mr Alexander Yeats of the World Bank raises doubts about the benefits of Mercosur.²

Although Mercosur has led to a rapid rise in trade among its partners, that growth may not generate many economic benefits.

As Mr Yeats demonstrates (and the chart indicates) the most rapid increase has been in transport equipment and machinery. These are capital-intensive goods, in which members of Mercosur have shown little global competitiveness. In fact, says Mr Yeats, the higher the rate of growth of internal trade in a category the worse its performance on world markets has been.

Why has this happened? The answer is that for some uncompetitive products Mercosur retains high-tariff and non-tariff protection.

Importing countries are paying high prices for imports of these goods from their partners - a recipe for mutual impoverishment.

The way to lower these costs is to eliminate the distortion, by moving towards external liberalisation as rapidly as possible. This is just as true for other arrangements, such as the EU and NAFTA. Similarly, the simplest way to minimise the potential problem of mutually inconsistent rules is to negotiate

them at a global level.

The conclusions are simple enough:

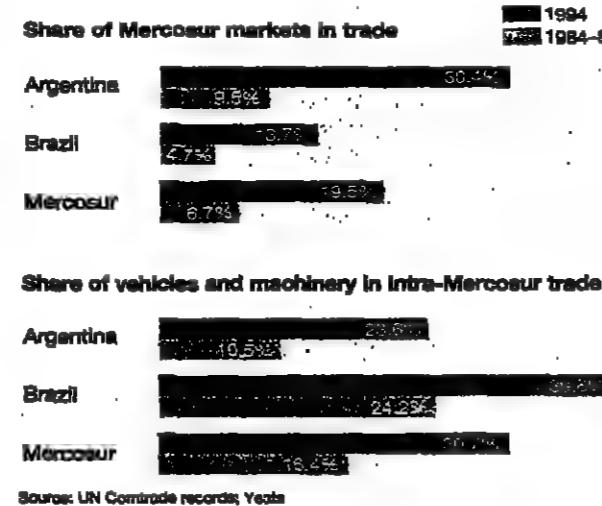
- Discriminatory (or preferential) liberalisation is not necessarily beneficial for participants, let alone the rest of the world.
- Geographical proximity need not be the right starting point for preferential liberalisation.

- The best way to develop consistent and predictable rules for a liberal global economy is unlikely to be through discussions in groupings that are closed to outside members.

True output is now 6.4 per cent above its February level; that is what happens when you compare a summer month with a month so cold that virtually nothing could be produced or built. On a nine- or 12-month comparison, output is 2.4 per cent higher.

True, gross domestic product grew at a 2 per cent pace in the 1996 first half (and it is a sad reflection on the extent to which we have become accustomed to a near-recessionary Europe, that this seems startling). But this recovery remains export rather than domestically driven, and the recent debacle over next

Trade diversion in South America



Staying the course benefits others

Last week we said that economic return is an important factor in our decision to enter or exit business in any nation. A corollary to this - particularly in countries where attention is focused on civil and political reforms - is our belief that great global companies can be a positive force for change. We know this from our experiences in Indonesia, Saudi Arabia and Nigeria.

Some 30 years ago, an abortive coup by the Indonesian Communist Party triggered bloodshed and months of turmoil. Operating in the country since the turn of the century, Mobil had a substantial presence as well as assets there. We had a choice to make. Fortunately, those who made the choice reasoned that it was better to ride out the storm than to cut and run.

Five years later, the Arun natural gas field was discovered in Sumatra. That discovery made Mobil one of the world's leading natural gas companies and gave us a major source of earnings for many years. Indonesia also gained from the discovery, becoming a leading exporter of natural gas liquids and a major economic force in the Asia-Pacific region. In the process, many of its citizens acquired skills that would lead to high-wage jobs and successful careers.

From the very beginning, Mobil and the government of Indonesia partnered for mutual benefit. The goal was to make Arun both a technical and commercial success. The project's viability was tied to Mobil's transferring technical know-how to the native work force. We established a technical school in northern Sumatra so Indonesians could acquire the skills needed for this monumental project. Many later went on to receive engineering degrees.

Our presence in Saudi Arabia brought similar benefits to its citizens. As a partner with Aramco, the state-owned oil company, Mobil trained many young Saudis as we helped develop

the kingdom's resources. The curriculum included planning, market economics and organization along with on-the-job training in how large multinational oil companies operate. Many of the kingdom's present business leaders as well as several government officials came from Aramco's ranks.

Such experience keeps us optimistic about our impact in Nigeria. Through our joint venture with Nigerian National Petroleum Corporation, Mobil produces for Nigeria about 500,000 barrels a day of liquid hydrocarbons from several offshore fields. Our operations there date back to 1907. The investments that we and others are making to develop its energy resources are helping provide for the nation's future.

With nearly 1,600 employees - 95 percent of them Nigerian nationals - our people range from clerks and secretaries to plant managers and directors. They enjoy employment conditions hard to match in any other industry, including training, development and advancement inside and outside Nigeria.

Mobil's impact and investments go far beyond the gates of our facilities. Because our affiliates in Nigeria are an integral part of their local communities and the nation as a whole, our people have developed programs that benefit many levels of society. These include projects in education, health, water supply, roads, electricity, sports, as well as the arts and culture.

Should American oil companies and other multinationals continue to invest heavily in developing countries - even trouble spots? The answer is yes. We will continue to explore for and develop the oil and gas supplies needed in the years ahead. Rather than cut and run from trouble spots, we will work to change them. By operating to the highest standards of business ethics, social responsibility and environmental safety, we believe Mobil can positively influence change.

Mobil

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LETTERS TO THE EDITOR

Number One Southwark Bridge, London, SE1 9TE, UK

We are keen to encourage letters from readers around the world. Letters may be sent to: +44 171 873 5938 (please add 'fax to '0044') or e-mail: letters@ft.com. Published letters may be available online at <http://www.ft.com>. Translation may be available for letters written in the main international languages.

Mr Issing not even growling

From Ms Alison Cottrell

Sir, Would that the tone of

your editorial ("Mr Issing

barks", October 25) - that

Germany is recovering to a

degree that puts the interest

rate risk on the upside -

were true, at least for the

sake of its 10.4 per cent

unemployed. While the

evidence you present is

undoubtedly correct, it is,

however, misleading.

True output is now 6.4 per

cent above its February

level; that is what happens

when you compare a

summer month with a

month so cold that virtually

nothing could be produced

or built. On a nine- or

12-month comparison,

output is 2.4 per cent higher.

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the 1996 first half (and it is a

sad reflection on the extent

to which we have become

accustomed to a

near-recessionary Europe,

that this seems startling).

But this recovery remains

export rather than

domestically driven, and the

recent debacle over next

year's tax policy will have

done little to encourage

confidence at home.

True, M3 rose at an 8.4 per

cent rate to September,

on the Bundesbank's

idiosyncratic annualised

measure. But this is far for

the course for a central bank

which has missed its targets

as often as it has hit them,

and a strong "headline"

conceals some very weak

bank lending numbers.

And, true, the D-Mark has

fallen 8 per cent from its

March 1995 peak - the rapid

ascend to which proved a

nightmare for both central

bank and economy, and

which took more than a year

of skilful policy and

speech-writing to correct.

Compared with January

1995, the D-Mark is an

insignificant 0.3 per cent

lower.

If it were not for very low

consumer price inflation,

the Bundesbank might even

be thinking of tightening.

This is a very "it": and

while the statement is,

again, undeniably correct,

it is scarcely relevant to

newspapers to discover they

have been savaged.

Alison Cottrell

Executive Director,

RainsWebber International

(UK),

1 Finsbury Avenue,

London EC2M 2PA, UK

Little confidence in Czech stock market

From Mr Markus Winkler

Sir, I noted Vincent

Boland's understated

THE EDITORIAL

ven growing

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Tuesday October 29 1996

Heart of darkness

The crisis in eastern Zaire has all the ingredients of a catastrophe that could envelop central Africa: bitter ethnic rivalries, colonially imposed national frontiers under strain, fragile governments, hundreds of thousands of refugees on the move.

Most worrying of all, President Mobutu Sese Seko, Zaire's authoritarian leader and the region's dominant figure, remains abroad, his ill-health leaving a power vacuum in the heart of the continent.

For the last two years Zaire has helped destabilise its eastern neighbours, Rwanda and Burundi, by providing a haven to Hema guerrillas fighting the Tutsi-dominated armies of both countries. Now the regimes in Kigali and Bujumbura have returned the compliment, encouraging a Tutsi rebellion inside Zaire in order to push the Hema refugees further away from the frontier. This could be the trigger which starts the disintegration of Zaire itself, with the risk of insurrection and secessionist movements spilling over into its southern neighbours, Zambia and Angola.

Anarchy could have been averted if two years ago, the international community had taken firm action to sort the genuine refugees from the extremists, close certain camps, and give those truly afraid of returning to Rwanda the chance to move further into Zaire. This summer's surprisingly successful return of 80,000 Rwandan refugees pushed out of Burundi by the new Tutsi military regime there showed that fears of mass arrests were unfounded. The refugees could yet be reabsorbed among their fellow Hema, who remain the majority of the population.

No contest

The race for the post of chief executive in Hong Kong is under way in earnest. When nominations closed yesterday more than 30 people had put forward their names to govern the territory after its reversion to China next July. Four, two businessmen and two former members of the judiciary, are seen as serious candidates.

The process is one of selection rather than election. The successful candidate will be chosen by a 400-strong body whose membership is determined by Beijing. China will then formally make the appointment. For that reason Mrs Anson Chan, Hong Kong's chief secretary, has been obliged to rule herself out. Mrs Chan, a much defender of Hong Kong's autonomy, would be the people's choice. But Beijing is wary of her close links with Mr Chris Patten's administration.

Instead the frontrunner is the shipping magnate Mr Tung Chee-hwa. His opponents are Sir Ti Liang-ying, the former chief justice, Mr Simon Li, a former appeals court judge, and Mr Peter Woo, the businessman son-in-law of the late Y K Pao. There are strong suspicions in the territory, though, that Beijing is more interested in a form than the substance of a

contender. Each of these contenders has pledged to uphold the one-country-two-systems formula which is designed to safeguard Hong Kong's freedom and prosperity after 1997. To that end, they would like Mrs Chan to remain as chief secretary. But, with more than half an eye on their new political master, the candidates have also stressed the need for conciliation rather than confrontation in relations with Beijing.

On one level that seems common sense. It betrays, though, a worrying ambiguity about the task of the chief executive. As Mrs Chan has remarked, upholding Hong Kong's autonomy and preserving the freedoms and rights enshrined in the Joint Declaration and the Basic Law will require courage and strong leadership.

China's questioning of the scope for freedom of expression after 1997 and its planned appointment of a new provisional legislature have already put in question the autonomy on which Hong Kong's international reputation depends. The damage can be undone only if the new chief executive acts first and foremost to represent Hong Kong in Beijing rather than vice-versa.

Knives out

The leaders of the UK Conservative and Labour parties really ought to find some other subject to bicker about than the banning of combat knives. There is little disagreement between them although the issue, like the possession of hand guns, raises strong emotions, and some questions of civil liberty.

For this reason it should be considered calmly by politicians outside party divisions, rather than in an unseemly competition for media applause. When Mr John Prescott, Labour's deputy leader, emerged last week from a central London shop brandishing a 25cm Bowie knife, and held it up for the cameras, he was making a good point in the wrong way.

Fanning popular outrage on such subjects too often leads to bad law - a point which can be levelled equally against the Tories' attempt to manufacture a moral crusade out of prison sentencing policy.

It is easy to agree that some of the vicious weapons now available in UK shops can have no possible use for law-abiding citizens. However, it is less obvious that new laws are needed. Flick knives were banned in 1989. Under the Criminal Justice Act, 1985, 14 different kinds of

knives are banned and others may be added. The 1983 Carrying of Knives Act restricted their use. The Offensive Weapons Act of 1986 tightened the restrictions for children. The Criminal Justice and Public Order Act of 1994 gives the police powers to stop and search people for weapons.

The UK needs neither additional laws nor a "mother's campaign" orchestrated by Mr Prescott. It needs a prosaic attempt by lawyers and the police to find a robust definition of military-style knives which distinguishes them from those for legitimate use.

This has proved difficult: knives of many kinds are needed, not just in the kitchen but for sport, trades and country use. For many law-abiding people, including boys scouts, a knife has been a traditional symbol of manhood.

No reasonable law can prevent thugs and criminals from buying a lethal blade. The issue is rather the glorification of violence and death, which some weapons represent. This is an offence to public taste. So if the words can be found to restrict the sale of knives designed to kill people, it should be done without further posturing and with no new legislation.

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COMMENT & ANALYSIS

All change on UK railways

Privatisation has produced significant improvements in services but public scepticism persists, writes Charles Batchelor

Rail privatisation in the UK is well under way. Around Britain, new operating companies are cutting journey times to far-flung parts of the country and offering bargain fares between big cities. On London commuter lines, the French-owned Connex South Central company has introduced an off-peak service every 10 minutes so that passengers can travel when they want and "throw away their timetables".

The aim is to make profits by luring travellers back to rail: the growth of car travel has pushed rail's share of the passenger market down to 5 per cent today from 19 per cent in the mid-1980s.

Already 13 of the 26 passenger operating franchises have been sold. Other parts of the business, including most freight operations and all the track and rolling stock maintenance businesses, are also in private hands. Railtrack, owner of railway track and signalling, was floated on the London Stock Exchange in May.

The UK's railways must now demonstrate that opponents of privatisation are wrong, that the pain and the cost of fragmenting the state-owned British Rail into more than 50 separate companies have been worthwhile.

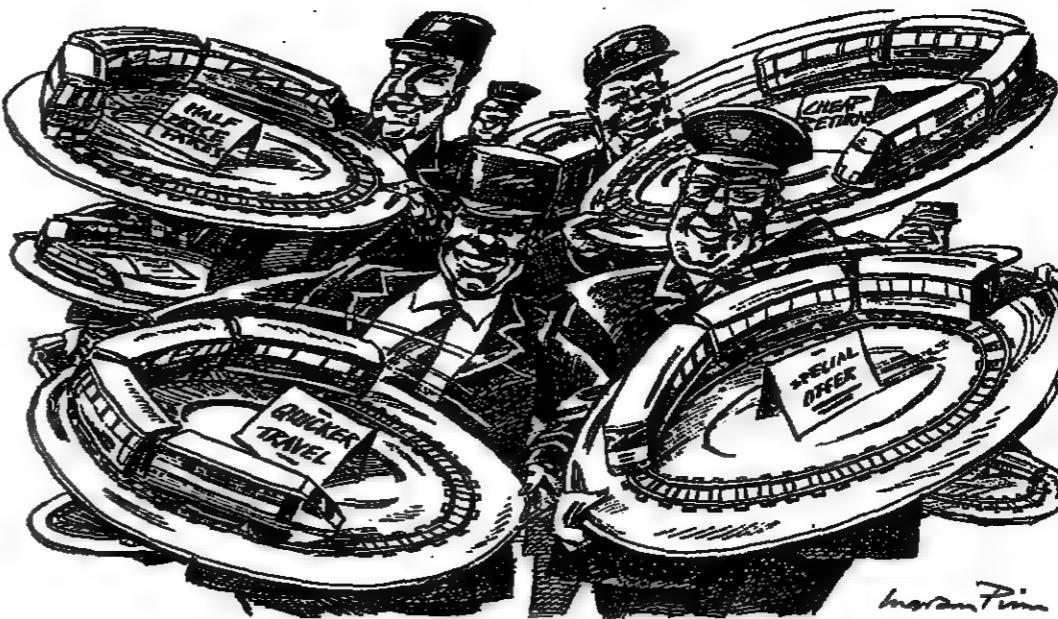
Similar battles were fought over previous privatisations. Few people would deny that UK telecoms companies and British Airways are much better than their state-owned predecessors. But more recent privatisations such as water and electricity have yet to prove themselves.

In spite of British Rail's poor record of service and investment, "selling" rail privatisation to the travelling public will not be easy. "The fragmentation confuses passengers and drives them away," says Mr Jonathan Bray, co-ordinator of the Save Our Railways group, one of the most vigorous opponents of privatisation.

The privatised operators - most of them owned by UK bus companies - insist that they are making the changes that their customers want and that BR never managed to introduce.

Faster journeys and better service are essential to the strategy. Great Western, which runs fast trains to the west country and south Wales from London, plans to run as many trains in winter as in the busy summer season. Track improvements have already cut up to 20 minutes off journey times and the company is pressing Railtrack to upgrade further sections of track.

New or refurbished trains are to be introduced on many lines under the contracts negotiated between the companies and the franchising director, Mr Roger



Passenger companies

Franchises ^{††}	New Owner	Ticker	Revenue	Route Miles	Employees
Great Western	Management	2m*	£220	656	2,900
South West Trains	Stagecoach	280	450	4,000	
East City & Coast	Sea Containers	2081	950	2,800	
Gatwick Express	National Express	27†	27	310	
Midland Main Line	National Express	2631	375	11,000	
Network South Central	Management	1621	375	3,085	
London Underground	Connex Rail	1571	375	770	
Chiltern	Prism Rail	231	84	360	
South Eastern	Management/John Laing	22†	109	3,900	
Cardiff Railway	Connex Rail	233	145	250	
ScotRail Wales & West	Prism Rail	62	88	315	
Thames Trains	Prism Rail	1451	1,069	1,400	
London Underground	Go-Ahead/Management	4651	250	1,000	
Midland Main Line	Stagecoach	1073	375	44	

*m £m 1995
†† Franchises in bold are those owned by bus or road companies

† Year to March 1996

‡ Year to March 1995

Undergoing Monopolies and Mergers Commission Investigation

continue to employ. Drivers, for example, have had big wage rises, but restrictive work practices are being rooted out and overall wages bills have fallen. Great Western can now run its express trains at speeds above 180km/h without the need for a second driver in the cab. Freightliner can run its container trains from Southampton to Leeds with just one driver instead of a crew of four.

If this all works, it could eventually be good for UK taxpayers too. The immediate effect of privatisation was to increase the annual level of subsidy by £700m to more than £2bn, but over the life of the passenger franchises, subsidies are set to decline. In some cases franchisees will have to pay a fee for the right to run services.

Investors have already done well by privatisation. The shares of Prism Rail, the owner of three franchises, have quadrupled in value since its listing on London's junior Alternative Investment Market in May. Railtrack, whose flotation was structured to give generous early incentives to investors, has gone from a parity-paid issue price of £2 to around £3.

"It was an enormous challenge to create a structure that makes commercial sense and will deliver good businesses to potential buyers," says Mr Salmon. "I think we have done that and we have done it at the top end of expectations."

The many critics of rail privatisation, however, remain unconvinced that the new structure is an improvement. They dismiss the new train liveries, spruced up staff uniforms and corporate logos of the private operators as cosmetic changes.

"The train operators are bringing in new ideas when it affects what happens on their own turf," says Mr Stephen Joseph, director of Transport 2000, a public transport lobby group critical of privatisation. "But we are concerned about services which are not operator specific or which don't give a quick payback - like the national marketing of rail tickets or putting staff on stations."

"Privatisation has happened at a time when the economy is improving and when the weather has been kind. I will believe in it when I see it working in the depths of winter in a recession."

The new owners of Britain's rail network are making improvements that shamed BR managers. The cumulative effect could be a much better, more flexible railway. But public perceptions will be slow to change and it will be a long haul before the average passenger is convinced.

ful bidders such as GB Rail, a group of rail managers and consultants, and Mr Richard Branson's Virgin group are desperate to gain a foothold in the industry. But the bus companies which have already been successful are keen to broaden their rail portfolios so as to spread their head office costs more widely. Aspiring train operators and those which have already won a place on the footplate can be expected to fight hard for the franchises still to be sold.

Predatory bus companies board the trains

Rail privatisation came at the right time for Britain's bus managers. Ten years after the deregulation of their industry, they used the experience gained in buying their own businesses to seize a large share of the rail market.

Bus companies have bought nine of the 13 rail franchises sold so far. Most British Rail managers, initially regarded as the only people qualified or willing to bid, have been swept aside; they were not helped by the fact

that the managers who won control of the London Tilbury & Southend franchise, one of the first to be sold, were later discredited after the discovery of ticketing irregularities.

Despite the government's attempts to create a railway structure in which operations do not require large amounts of capital - trains are leased and track is rented - the bus companies' deeper pockets have allowed them to prevail over their rivals. "We have a good

understanding of how to price risk and we can price our bids accordingly," says Mr Trevor Smallwood, a veteran of the buy-out of the Bristol-based Badgerline bus company, now part of FirstBus where Mr Smallwood is chairman. "We have the experience of the privatisation of our own industry."

The arrival of the bus companies on the rail market has brought some robust, not to say buccaneering, individuals into the railway industry.

With 12 passenger franchises remaining to be sold, unsuccess-

ful

and chairman of Stagecoach, has built Britain's largest bus group with a policy of aggressive expansion. "We believe we can transpose to rail the techniques we applied in the bus industry to cut overheads, improve productivity and make the business more customer-oriented," says Mr Souter. "But we also need to introduce a can-do mentality on the revenue side."

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• OBSERVER •

Cuccia's discretion

The secretive habits of Enrico Cuccia, the veteran head of Mediobanca, Italy's most influential merchant bank, are of course legendary.

But even he has surprised the business and political establishment by the veil of discretion he had managed to draw around the recent death of his wife, who went by the remarkable names of Idea Nuova Socialista.

Although she actually died on October 12, news of the event has only recently leaked out - by chance.

The lack of the customary formal announcement or funeral notice has caused considerable confusion among those, including the government, who felt the need to offer their condolences to the 85-year-old banker who has played such a powerful behind-the-scenes role in postwar Italy.

His wife came from an illustrious stable. Her father Alberto Beneduce founded RRI, the state holding company, during the 1930s. He managed to retain his anti-fascist credentials while enjoying the confidence of Il Duce.

He named his two other daughters Vittoria Proletaria and Itala Libera.

She met Cuccia while he was on secondment from the Bank of Italy to RRI, and they married in 1956.

In a gossip-ridden society, they insisted - successfully - on strict privacy.

The rule appears to have extended to her death, leading some observers to wonder what will happen when Cuccia himself eventually succumbs.

But even he has surprised the business and political establishment by the veil of discretion he had managed to draw around the recent death of his wife, who went by the remarkable names of Idea Nuova Socialista.

She exchanged her crystal ball for a microphone in 1970, when she launched a quarter of a century of regular radio broadcasts.

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service. Presumably she would have launched a page on the Internet had she not been rudely surprised by the Grim Reaper.

Cheque it out

Deutsche Morgan Grenfell's ability to inflate the salaries of investment bankers around the globe cannot endure indefinitely. But those who have failed to clamber aboard the current carousel need not necessarily despair.

Just suppose the talks between Bankgesellschaft Berlin and Norddeutsche Landesbank really do bear fruit, and the pair hook up to knock Dresdner Bank off its perch to form Germany's second largest bank.

These may be big regional players, but, to put it mildly, they do rather lack international clout.

Endless scope, then, for an even bigger and better round of outsize-ticket signings - with the added allure of a head office in party town Berlin rather than sombre Frankfurt. Can't be bad - except for those who are trying to run, rather than raid.

Rifkind's fans

However heavily the affairs of state weigh on the shoulders of

UK foreign

A WRITER



FINANCIAL TIMES

Tuesday October 29 1996

The MALT

Bhutto resigns finance role after IMF pressure

By Farhan Bokhari
in Islamabad

Ms Benazir Bhutto, prime minister of Pakistan, yesterday gave up the finance portfolio, which she has held since she came to power three years ago.

The appointment of a new finance minister is seen as a move to please the International Monetary Fund, which has held back the release of a \$600m (£375m) standby loan pending firm government action. Ms Bhutto has faced growing criticism for her handling of the economy.

Also in response to IMF pressure, the government last week unveiled an emergency budget, involving austerity and tax measures to raise an extra Rs400m (£22.2m) to reduce the budget deficit. In spite of the new taxes, the IMF expects the budget deficit to remain higher than the target of 4 per cent of gross domestic product.

The appointment of Mr Naveed Qamar, privatisation

minister, as finance minister disappointed analysts who had hoped for a more technocratic candidate.

It is not clear whether Mr Qamar's appointment would immediately improve prospects for an early deal with the IMF on resumption of disbursements from a \$600m standby loan. An IMF mission is in Islamabad this week for talks with officials on the loan, suspended in June after the government's annual budget had failed to meet IMF expectations.

"The government would need to demonstrate that it can keep harsh measures on track despite public protests. The appointment of a new minister alone can be meaningless," said a western economist.

Pakistani officials sent for talks with the IMF and the World Bank in Washington were also accused by western economists of "fudging numbers".

Mr Qamar's promotion

comes as the government's popularity continues to fall. Hours before his appointment was announced, police in Islamabad and the neighbouring city of Rawalpindi fought Islamic activists whose protests have disrupted the cities over the past two days.

Mr Mudassar Malik, director at Karachi's BMA brokerage, said: "Some kind of a revamping of the finance ministry was needed. Mr Qamar has been appointed so that the IMF can have a greater degree of trust in our economic targets."

Analysts said the absence of an independent finance minister meant vital decisions were not made for several days.

"The absence of an (independent) finance minister had created a vacuum," said one economist yesterday.

Mr Sartaj Aziz, former finance minister and an opposition leader, said: "This has happened too late when things are so bad. I don't know if he can retrieve the situation."

New health fears as Yeltsin suspends meetings

By Chrystia Freeland
in Moscow

Russian President Boris Yeltsin yesterday cancelled all this week's planned meetings to undergo medical tests, renewing speculation about his condition.

Doctors and political analysts said the sudden announcement probably signalled either a sharp deterioration in the Russian leader's condition or a decision to perform heart bypass surgery earlier than planned.

Officially, the Kremlin said the president's work schedule had been cleared to allow doctors to do the tests needed in the "final stage" of Mr Yeltsin's preparation for surgery.

"Planned preparations for heart surgery have entered the final stage and the president will undergo a whole series of medical tests under a special regime in the next few days," Mr Sergei Yastrzhembsky, the Kremlin press secretary said.

Mr Yastrzhembsky said no date for the operation, tentatively expected in the second half of November, had been set. "There are no grounds to expect the operation will take place this week," he said.

Dr Mikhail Alshyak, a Moscow cardiologist, said the announcement could mean only one of three things:

"First, it could mean that his condition has seriously deteriorated. Secondly, it could mean they are going to perform another coronary angiography (a two-day investigation of heart activity), because that is the only test which would require the meetings to be cancelled. Or, thirdly, it could mean that they will now conduct the operation, but will not tell anyone about it."

Mr Sergei Matcov, a political scientist at Moscow State University, said the most likely reason for the isolation of the president was a serious decline in his condition.

On the Russian markets, the news was overshadowed by reports that more government bonds had been suspended.

Several investors said \$56.5m worth of bonds had been frozen either yesterday or Friday, following the suspension of \$100m of bonds earlier this year.

The reports pushed the fifth tranche of the dollar-denominated bonds down to 38.25 cents on the dollar, from an opening price of 39.25 cents.

Investors said they had received no official confirmation of the suspension, but a Moscow banker said he learned of the move in a statement yesterday from Vneshbank, the custodian.

Corporate tax debtors, Page 2

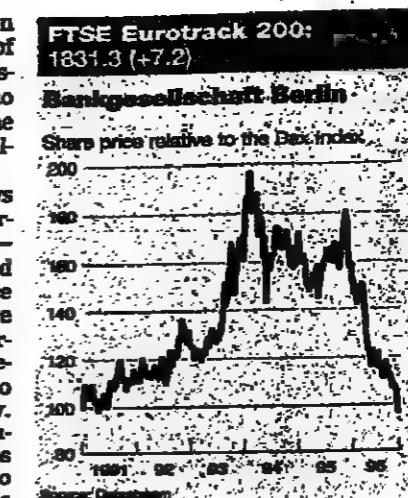
THE LEX COLUMN

Germany gears up

Corporate Germany has been lobbying for the legalisation of share buy-backs for years. But yesterday's Justice Ministry promise to change the rules by early 1998 is the government's first public acknowledgement that it is listening.

The change would be good news for investors. According to J.P. Morgan, 52 European companies – mainly British – have announced buy-backs of \$50m or more since 1990; on average, their shares have outperformed their respective markets by 15 per cent in the subsequent five months. Buy-backs do not make sense for every company. But those with strong cash generation, few acquisition opportunities and low organic growth need to think about them. Companies whose cost of equity is higher than their cost of debt should even consider borrowing to retire expensive equity.

Several German groups fit the bill. Utilities such as RWE and Veba



COMPANIES AND FINANCE: EUROPE

German banks move towards consolidation

Merger is not a word either Bankgesellschaft Berlin or Norddeutsche Landesbank like to hear in connection with their ongoing series of talks. Instead both refer to talks about developing concepts for closer co-operation.

But whatever the terminology, the fact is that the regular series of meetings between the two institutions which have been going on for the past two years are indicative of a trend towards concentration within the German banking sector.

"The fact is that Germany is over-banked. There are far too many institutions, some 3,600 in all. There will have to be mergers," says Ms Sabine Bohn, an analyst at Schröder Münchmeyer Hengst in Frankfurt.

A prime motivation to merge is the need to reduce costs through economies of scale. "You need scale to invest in technology and to keep distribution costs down," explains Mr Neil Crowder, a German banking analyst at Goldman Sachs in London.

German banks - especially the regionally-rooted co-operative and savings banks but also those in the private sector - are considered inefficient. Dense branch networks with a large infrastructure have led to over-staffing. As distribution drifts away from branches towards direct banking via telephone, margins are increasingly under pressure.

Germany's banks have 48,700 branches. The popula-

tion per branch is just 1,633, against 3,230 in the UK, according to London-based brokers James Capel. The average cost/income ratio is 67.5, compared with 62.1 in the UK and 52.2 in Sweden.

There is also pressure from customers. Germany's medium-sized companies, known collectively as the Mittelstand, have changed their banking habits in recent years.

Whereas in the past a company typically had a local "Hausbank" which serviced all its needs, now companies are starting to shop around, not only within Germany but also abroad.

It is not just the wider availability of capital which is forcing banks towards consolidation. German companies are investing abroad more and in doing so require a different level of know-how from their banks. "This level of expertise is not available at every savings bank. But the customer demands it," says Ms Bohn.

Against this backdrop, a coming together of Bankgesellschaft Berlin and NordLB appears a neat fit. Geographically they would make a strong north German bank, particularly if NordLB's talks with the Hamburg senate, the city's government, allows it some form of involvement with the Hamburg Landesbank.

In some areas the two have already merged their operations. This summer the mortgage banks were brought together into the Berlin-Hannoverische Hypo-

Top 10 German banks

Tier one capital 1994

	Deutsche	WestLB	Bank	Deutsche	Deutsche	Deutsche	Deutsche	Deutsche	Deutsche
Deutsche	20.2	5.75	1.2	Deutsche	Deutsche	Deutsche	Deutsche	Deutsche	Deutsche
Dresdner	1.5	4.00	1.3	Dresdner	Dresdner	Dresdner	Dresdner	Dresdner	Dresdner
Westdeutsche Landesbank	12.2	3.65	0.7	Westdeutsche	Westdeutsche	Westdeutsche	Westdeutsche	Westdeutsche	Westdeutsche
Commerzbank	10.1	3.42	1.7	Commerzbank	Commerzbank	Commerzbank	Commerzbank	Commerzbank	Commerzbank
Bayerische Hypobank	8.5	2.75	1.1	Bayerische Hypobank					
Kreditanstalt für Wiederaufbau	8.2	2.46	0.4	Kreditanstalt für Wiederaufbau					
Bankgesellschaft Berlin	6.1	2.45	0.7	Bankgesellschaft Berlin					
Bayerische Vereinsbank	7.8	3.18	1.1	Bayerische Vereinsbank					
Norddeutsche Landesbank	5.7	2.66	0.5	Norddeutsche Landesbank					
	4.8	1.84	0.4						

Source: Banker Top 1000

thebanken, or Berlin Hyp. Then there is a joint-venture in electronic data processing - the BHS Berliner Hannoverische Software-

entwicklungsgesellschaft - which brings together many of the two banks' back office operations. Both have also set up a jointly-owned con-

sultancy subsidiary called Kommualeconsult specialising in project financing for the public sector and privatisa-

tion. Frederick Stüdemann

Autoliv posts 14% advance at nine-month stage

By Greg Melvyn in Stockholm

Profits at Sweden's Autoliv, which is to merge with the car safety business of Morton International of the US to form the world's largest car airbag and seat belt supplier, rose 14 per cent in the first nine months.

Robust sales growth in key markets helped push pre-tax profits from SKr750m to SKr963m (\$131m), strongly ahead of a 2 per cent increase in European light vehicle production - Autoliv's most important market.

Sales rose from SKr7.5bn to SKr8.5bn. They were hit by a 10 per cent adverse currency effect, but this was largely balanced by a 9 per cent increase in revenue arising from acquisitions. Earnings per share rose from SKr6.70 to SKr10.11.

The figures were in line with analysts' predictions. However, Autoliv shares fell sharply after the report before rallying to close up SKr2.50 at SKr26.50 on the day.

Mr Paul Charley, chief executive, said the merger preparations

with Morton were progressing well and expressed confidence the deal would receive shareholder backing.

Autoliv shares have been steady since climbing 13 per cent immediately after the merger deal was unveiled late last month.

This is despite Autoliv's forecast of little short-term earnings enhancement.

The two companies have signed a letter of intent and Autoliv said a definitive agreement would be reached next month, with a prospectus to follow in the spring.

Autoliv's strongest nine-month

growth was in its seat belt operations, where sales progressed from SKr4.1bn to SKr4.5bn, or 11 per cent adjusted for exchange rate effects and acquisitions.

The company ascribed the increase to the successful launch of belt systems with so-called pre-tensioners, which are said to reduce the risk of injury in event of accident.

Turnover in airbags and steering wheels grew 8 per cent, from SKr2.7bn to SKr3.1bn, or 11 per cent fully adjusted.

Mr Charley said the European

market was not as mature as in the US, and was set to continue expanding. However, he said Autoliv was experiencing price pressure, which would take some of the edge of growth.

The company said it had started deliveries of side-impact airbags to Volkswagen and Audi, the German car makers and Autoliv's second and third customers after Volvo.

It has also begun supplies to Nissan Diesel and Isuzu, the Japanese truck makers - again its second and third customers after Volvo.

Funds buy 25% of Star Foods

Advent International's Central European Private Equity Fund, a venture capital investment fund, has led a group of investors in taking a 25 per cent stake worth \$8m in Star Foods, a Greek-owned snack-foods producer and distributor in Poland. Star Foods is one of the most successful foreign-owned operations in Poland. It is owned by the Mitzal family, which has built similar businesses in Bulgaria and Romania. The investment by Advent and its partners - which include Copernicus, a Polish based investment fund, Jupiter Asset Management and Pioneer, a US mutual fund - values Star Foods at \$32m.

Christopher Bobinski, Warsaw

Trading in MHB suspended

Hungary's securities commission has suspended over-the-counter trading in Magyar Hitel Bank, the country's fifth-largest bank, following a sharp increase in the stock's price last week. The rise followed newspaper reports that Austria's Creditanstalt and ABN Amro, the Dutch bank, had bid for the bank which is being privatised. The two banks have entered a closed tender for an 88 per cent stake in MHB, which had assets totalling Ft260bn (\$1.7bn) at the end of last year.

Virginia Morris, Budapest

Strategic Advisor of Choice for the Insurance Industry

Insurance Expertise

Global Presence

Morgan Stanley Client	Transactions Last 12 Months Only	Approximate Transaction Size
Munich Re	Acquisition of American Re*	\$4,040,000,000
Swiss Re	Acquisition of Mercantile and General Re*	2,650,000,000
GEICO	Sale of remaining 49% of company to Berkshire Hathaway	2,300,000,000
First Colony	Sale of company to GE Capital*	1,800,000,000
Metra Health	Sale of company to United Healthcare	1,650,000,000
General Re	Acquisition of National Re*	1,150,000,000
The New England Companies	Merger with Met Life	1,050,000,000
AON	Divestiture of Life Insurance Company of Virginia to GE Capital	960,000,000
Emphesys Financial	Sale of company to Humans	640,000,000
Household International	Divestiture of Alexander Hamilton Life to Jefferson Pilot	575,000,000
AON	Divestiture of Union Fidelity to GE Capital	420,000,000
Mass Mutual	Sale of Group Life and Health business to WellPoint	380,000,000
Marsh & McLennan	Divestiture of the Frizzell Group to Liverpool Victoria Friendly Society	300,000,000
Sammons (Midland National)	Acquisition of NACOLAH Holding Corp.	235,000,000
Skandia AB	Divestiture of Skandia America to Fairfax Financial	220,000,000
UNUM	Divestiture of their Tax Sheltered Annuity Business to Lincoln National	210,000,000
Allstate	Divestiture of Domestic Reinsurance operations to SCOR US	Not Disclosed
American International Group	Acquisition of SPC Credit Ltd. from Bank America	Not Disclosed
ING Insurance N.V.	Arranger of Debt Insurance Program	1,000,000,000
Travelers/Actua P&C	Initial Public Offering	885,000,000
IPC Holdings, Ltd.	Initial Public Offering	297,500,000

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Please for information concerning the subscription procedure and investment arrangements in Magyar Hitel Bank.			
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USD 100,000,000 KANSALLIS OSAKE PANKKI			
Subordinated Floating Rate Notes due July 1997			
Interest Rate 5.78125%			
Interest Period October 28, 1996 January 25, 1997			
Interest Amount due on January 25, 1997 per			
USD 10,000 USD 147.74			
USD 250,000 USD 3,683.98			
G BANQUE GENERALE DU LUXEMBOURG Agent Bank			
C CHASE			

U.S. \$75,000,000 CREDITANSTALT-BANKVEREIN			
(component to the Financial Assets with Fixed Maturity)			
Investment Floating Rate Notes due 1998			
Notes have been issued for the interest period from October 28, 1997 to April 25, 1998. The rate has been determined at 8.2465% per annum. The amount payable on April 25, 1998 per U.S.\$1,000, U.S.\$ 845.21 and U.S. \$415.98 respectively.			
Notes will be U.S.\$415.98			
By The Credit Anstalt Bank Vienna, Austria October 28, 1996			

COMPANIES AND FINANCE: EUROPE

Santander posts 13.2% advance

By Tom Burns
in Madrid

Banco Santander, which is leading a drive by Spanish banks into Latin America, yesterday posted a 13.2 per cent increase in net attributable profit to Pta11.7bn (\$670.1m) for the first nine months of the year.

The result, which was helped by robust growth in the group's core commercial banking business both in Spain and Latin America, was in line with estimates.

Santander had the highest nine-month net income among the domestic banks, ahead of the Pta70.4bn posted last week by Banco Bilbao Vizcaya, its closest domestic rival.

Mr Emilio Botin, Santander chairman, said the

results reflected "the excellent evolution of recurring income".

Reporting big increases in outstanding loans, mortgage lending and managed funds, the bank said that net interest income rose 12.3 per cent to Pta232.7m and that earnings from fees and commissions increased 14.6 per cent to Pta116.1bn.

Average total assets, the largest among the domestic financial institutions, stood at Pta17,831bn, 14.5 per cent up on the nine-month stage last year, and return on equity increased from 16.55 per cent to 17.56 per cent.

Net provisions for loan losses, which increased 32.4 per cent to Pta32.7bn, and for goodwill amortisation, which grew at a similar rate to Pta4.8bn, held back profit.

Itability. The group said, however, that these figures pointed to considerable unrealised earnings potential.

Some Pta12bn of the goodwill amortisation was absorbed by Banesto, the troubled bank which was acquired by Santander in 1994 and which is expected to start making a positive contribution to the group's results in the next 12 months. Under domestic banking rules, goodwill must be amortised over 10 years, instead of over 20 years as in the US, and it cannot be charged to reserves, as in the UK.

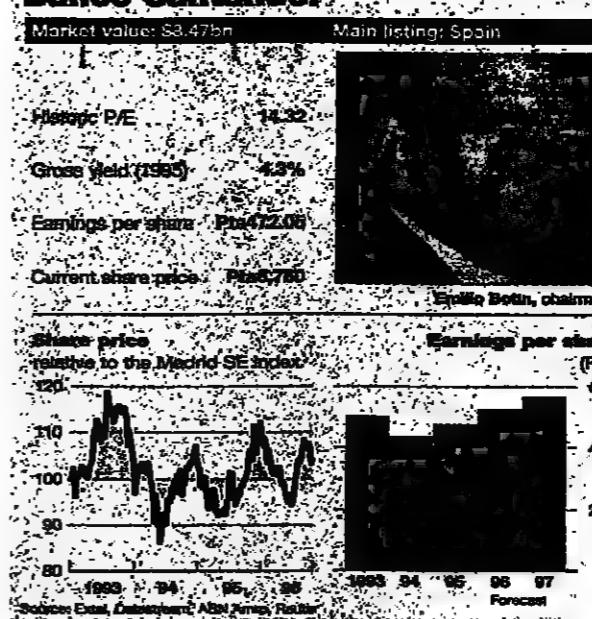
The results come as Santander deepens its involvement in Latin America, where it last week acquired 75 per cent of Grupo Financiero Invermexico, Mexico's fourth-largest financial institution, in a \$378m deal in April. Santander spent \$495m on Chile's Banco Osorno, which it merged with its existing financial activities to form Banco Santander Chile.

The Spanish group is now set for an acquisition in Venezuela, where it has been shortlisted in privatisation tenders for Banco de Venezuela and for Banco Consolidado, a smaller bank. Decisions on both sales are due before the end of the year.

Santander, which is also present in Argentina, Peru and Puerto Rico, has still not reached a ceiling imposed by its board which limits investments in Latin America to 20 per cent of resources.

PROFILE

Banco Santander



AgrEvo forecasts 36% rise for year

By Frederick Städler in Berlin

AgrEvo, the German agrochemicals company, said it expected operating profits to rise 36 per cent to DM200m (\$131m) as a result of unexpectedly strong sales growth and the effects of cost-cutting in the first three-quarters of 1996.

Mr Gerhard Prante, chief executive, said the company, which is jointly owned by Hoechst and Schering, now expects sales for the full year to reach DM3.75bn, 11 per cent higher than in 1995 and well ahead of the market average of 3-4 per cent.

Earlier this year AgrEvo had forecast sales of DM3.5bn. Schering's shares advanced DM0.25 to DM124.80 on the news. Hoechst shares put on 77 pfennig to DM58.05.

The strongest sales growth was expected in Latin America where a rise of 27 per cent to DM100m was forecast. This followed North America, where a 14 per cent increase to DM80m is expected.

In Europe, the company's biggest market, a 4 per cent rise in sales to DM1.5bn is forecast.

Company lifted its share of the \$26bn agrochemicals market to 9 per cent. In sales terms AgrEvo is now the second-largest agrochemicals company in the world after Novartis.

The company's biotechnology activities were progressing well but were dependent on public acceptance of genetically manipulated crops, Mr Prante said. This was a particular problem in Germany where there has been strong opposition from environmental groups.

Outside Japan the company benefited from a weakening of the D-Mark, Mr Prante said. In 1995 AgrEvo estimated it lost DM250m of sales and saw DM60m wiped off the operating profit by the negative effects of exchange rate.

Mr Peter Henkel, the board member responsible for administration and personnel, said AgrEvo's cost-cutting campaign was beginning to take effect and had contributed significantly to the rise in operating profits. By 1996 the company aimed to cut DM300m off its costs compared with 1994.

The 1996 profits forecast includes restructuring costs of DM130m, Mr Henkel said.

France Télécom's first payout set to top FF1bn

By David Owen
in Paris

France Télécom looks set to pay out more than FF1bn (\$191m) in dividends to private investors in its first year as a publicly-quoted company.

Mr Michel Bon, chairman, said the company's overall dividend payout after next year's planned partial privatisation is likely to amount to about 45 per cent of net profits. This is the same proportion as the annual payment the company makes to the French state, at present its only shareholder.

Private investors are expected to be given their first opportunity to invest in the group next April in what is expected to be the company's largest privatisation to date. The planned float is one of a string of share offerings in state-controlled Euro-

pean telecoms operators.

Mr François Fillion, telecommunications minister, said recently the proportion of capital offered should be "about 20 per cent". The state is to retain 51 per cent of the company. On this basis, the group would need to make 1997 profits of more than FF1bn for the FF1bn payout to be triggered. A report on the company published in June by BZW, the investment arm of Barclays Bank, estimated net profits for that year would be FF12.8bn. This would compare with a 1995 figure of FF9.2bn, generated from sales of FF14.7bn.

Mr Bon said he expected the group's 1996 accounts to include net provisions of between FF1.5bn and FF3.5bn, taking its net worth to below FF100bn. This would be less than the level of its net debt, but Mr

Bon indicated that from 1997 debt should fall by between FF10bn and FF15bn a year.

As well as important adjustments in the wake of the company's much-publicised agreement to pay FF37.5bn to the state in return for the transfer of pension liabilities, these provisions would include a significant sum for property

write-downs. Mr Bon said this was needed because property was valued at 1990 levels - close to the peak of the French property market. According to BZW, France Télécom believes its "original 1990 balance-sheet may have overvalued land and buildings by up to FF25bn".

Mr Bon said he wanted to make next year's float a

"popular French" share offering. "All the French are clients of France Télécom and everyone has a view of the quality of the product," he said.

The arrival of private investors should also give the company with a one-off benefit related to the fact that it will pay ordinary dividends several months later

than it currently pays the state. The company makes this payment on the last day of the year to which it relates, based on an estimate of eventual profits. The first dividends to private investors, by contrast, are unlikely to be paid until well into 1998. Extra interest on this money could be worth tens of millions of francs.

Randgold profits ahead sharply

By Mark Ashurst
in Johannesburg

Randgold, the South African mining house whose recovery hinges on the fate of the country's marginal gold mines, announced a sharp rise in full-year profits.

Pre-tax profit for the year to September 30 more than doubled from R23.2m to R72.4m (\$15.88m). The results were not comparable with the previous period due to a radical restructuring, but they reflect significant gains from South African operations in the September quarter.

After-tax profit of R52.7m was 128 per cent higher than 1995, but included an exceptional item of R27.8m from the cancellation of management contracts with Blyvooruitzicht and Unisel mines. Excluding the exceptional gains, after-tax profit increased by 9 per cent.

Turnover fell 21 per cent from R75.51m to R59.9m following the disposal of First Wesgold mining company.

Profit on the sale of investments was consequently higher at R37.9m compared with R25.4m. No dividend was declared as Randgold had moved its year-end to March 31. The next financial statement will reflect the 18 months from October 1 last year.

Randgold's net asset value almost doubled to R1.9bn

during the period, reflecting the rapid growth of Randgold Resources, its new business arm. The market value of Randgold's investment in its listed South African interests was about R44m.

Earlier this month, Randgold Resources acquired a controlling stake in the Syama Gold Mine in Mali from BEP Minerals Mali for \$30m cash. The acquisition had wiped out the premium to net asset value of Randgold shares, which were trading at a discount to net asset value of about 18.5 per cent.

Mr Peter Flack, chairman,

said the group's prime objective was "to eliminate the discount to NAV from the Randgold share price". Randgold had "moved our own goalposts" by buying Syama. The resources subsidiary would be listed before the first quarter of 1997 to raise cash to fund new business in Africa.

Randgold had become the

first South African company to list on Nasdaq for 18 years. An issue of American Depository Receipts, completed on October 4, had raised \$18m from 7 per cent secured guaranteed bonds convertible into South African equity by 2001.

Mr Flack said the issue, which was designed to increase Randgold's tradability, had been oversubscribed four times.

UBS cautions on debt provisions

By William Hall in Zurich

Union Bank of Switzerland has underlined the continuing problems of the Swiss economy by signalling that bad debt provisions this year will be higher than the SF1.2bn (\$851m) predicted only two months ago.

Switzerland's biggest bank, which does not publish third-quarter figures, reported yesterday that its third-quarter results were weaker than in the first two quarters of the year. Nevertheless, it said earnings for the first nine months of 1996 exceeded last year's full-year figure. The outlook remained "cautiously optimistic".

Like other Swiss banks, UBS has been hit by the problems in the domestic real estate market and an economic slowdown. In early August, it announced a 16 per cent increase in first-half provisions for bad debts to SF150m. It warned then there was "no sign of the situation improving" in the near future and it expected

provisions to remain high in the second half.

However, a month later,

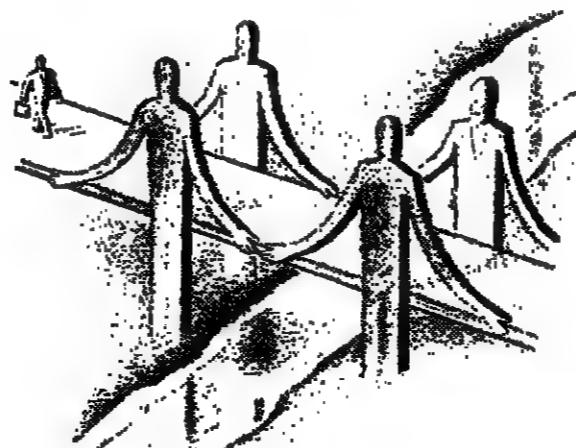
Mr Mathis Cahillavetta, the group's new chief executive, was quoted as saying that he expected full-year provisions to be about SF1.2bn, roughly in line with last year's figure. This led bank analysts to believe that the high-point in the group's bad debt provisions might have passed.

UBS did not elaborate on the reasons for its decision to take a more cautious stance on provisioning levels. It said there had been no improvement in the level of value adjustments, provisions and losses, which over all three quarters registered a significant increase against a year earlier. Credit risk provisions continued to relate almost exclusively to the Swiss loan portfolio.

Analysts are still expecting UBS to increase full-year provisions by about one-fifth in spite of its more cautious comments on its bad debt situation.

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COMPANIES AND FINANCE: ASIA-PACIFIC

Operating result hit by soaring fuel prices and strong currency

Singapore Airlines down 11% halfway

By James Kyne
in Kuala Lumpur

Singapore Airlines, the national flag-carrier, yesterday announced disappointing first-half earnings, as it suffered from escalating fuel prices, the strong Singapore dollar, and a soft cargo market.

Group net profit rose 7.2 per cent to \$855m (US\$596m), but operating profit for the six months to September 30 fell 11.4 per cent to \$468m. Group revenues climbed 4.6 per cent to \$3.53bn, and the gross dividend was 7.5 cents. The net profit was lifted by a large gain from the sale of aircraft and spares.

"It was a difficult first half, which saw the airline buffeted by escalating fuel prices, depreciating currencies like the yen and D-Mark, and soft cargo markets," Mr Cheong Choong Kong, chief executive officer, said.

Philippine SE moves toward self-regulation

By Edward Luce

The Philippine Stock Exchange has voted through a series of reforms which will enable it to become self-regulatory on November 12.

The move, which comes after months of often arduous wrangling, brings the Philippine regulatory framework into line with the system in New York. It is expected to send a positive signal to foreign investors.

The PSE, which says the move is part of a drive to shed its reputation for managing a closed shop for local brokerage houses, says the change in status will help modernise the market and put overseas investors on an even footing with their local counterparts.

"We wanted to show that we are a transparent exchange and not a private club," said Mr Wilson Sy, chairman of the 15-member board of directors. "We want to create more confidence among foreign investors and to show that we can professionalise the PSE."

Foreign brokers, however, say the move - which will enable the PSE to elect three non-brokers to the board of directors and give more power to the PSE's surveillance department to root out insider trading - is not enough.

Overseas broker houses, which form a significant minority of the 180 exchange members, say the PSE remains an opaque institution run by a cabal of mainly Chinese-Philippine brokerages.

"A lot more needs to be done to make the PSE the

professional and transparent place it claims to be," one foreign broker said.

Philippine officials say the changes in regulations will give the surveillance department the right to audit brokerages at any time without having to request permission from the board of directors. The department's power to investigate share price irregularities will also be strengthened.

Under the changes, which give the PSE autonomy from the day-to-day interference of Manila's Securities and Exchange Commission, two non-brokers will be elected to the board. These are expected to include one mutual fund manager and one company executive. Their election, which will take place after November 12, is expected to dilute local brokers' stranglehold over policymaking. The third non-broker is the president of the board.

"The reason these reforms are going through is because the globe is getting very small nowadays," said Mr Vitaliano Nanagas, recently appointed president of the PSE. "If we don't compete for foreign funds, nothing will come our way."

With many foreign investors moving out of Philippine stocks in the past few weeks, on fears of a downturn in the country's property sector, few believe the reforms will reverse the tide. But many, including foreign investors themselves - who make up about two-thirds of the PSE's daily turnover - say the move is at least a step in the right direction.

Nocil unit seeks tie-up

By Tony Tassell
in Bombay

National Organic Chemical Industries (Nocil), the Indian group, plans to spin off its petrochemicals operations into a joint venture with a multinational company.

Nocil said Arvind Mafatlal was talking to five international petrochemical industry leaders about a joint venture as part of its efforts to finance expansion.

For the past two years Nocil has been planning a Rs46bn (\$1.2bn) expansion of

its plant at Thane, near Bombay, which will include a greenfield cracker project. However, it has been unsuccessful in raising finance through debt or equity issues.

Nocil said a majority stake in the proposed joint venture may be offered to the foreign partner, although details had not been decided. It said petrochemicals accounted for about half of total turnover.

The company made net profits of Rs111m in the year to March 1996, on sales of Rs10.3bn.

ANZ Bank
Australia and New Zealand Banking Group Limited
Australian Company Number 005 357 522
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U.S. \$250,000,000

Subordinated Floating Rate Notes due 2000
of which U.S. \$140,000,000 is being issued
as the Initial Tranche and U.S. \$70,000,000
is being issued as the Second Tranche

Notice is hereby given that for the Interest Period 28th October, 1996 to 28th April, 1997 the Notes will carry a Rate of Interest of 6.14063 per cent, per annum with an Amount of Interest of U.S. \$1,104.43 per U.S. \$1,000 Note. The relevant Interest Payment Date will be 28th April, 1997.

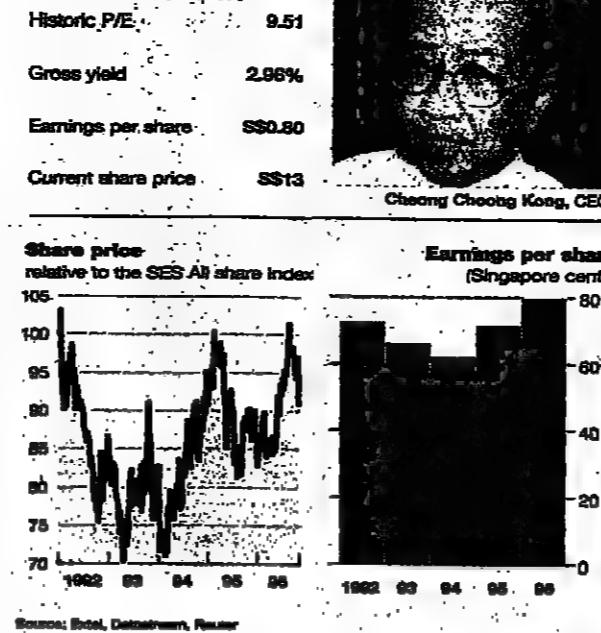
Bankers Trust Company, London

Agent Bank

PROFILE

Singapore Airlines

Market value: \$11.76bn Main listing: Singapore



profit would fail to make the \$81m mark in 1996-97. It reported a net profit of \$1.03bn in 1995-96.

No significant surplus from the sale of aircraft was envisaged in the second half.

The airline said that between April and September, it took delivery of two

Boeing 747-400s and four Airbus 340-300s, and sold four Boeing 747-200s and one Boeing 737-300 freighter.

The group's underlying financial position remains strong. Shareholder funds stood at \$10.28bn on September 30, a rise of 9 per cent from a year ago.

Ayala Land solid amid unease

By Edward Luce
in Manila

Ayala Land, the Philippines' largest property company, said net profits grew 34 per cent to 3.2bn pesos (US\$124.5m) in the first nine months of 1996, in spite of fears of a downturn in the Philippine property market.

But the results, which mean that Ayala is on track to achieve full-year profits of 4.4bn pesos, failed to stem the decline of its shares, which have fallen almost 15 per cent in the past month.

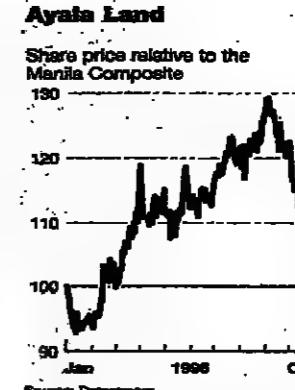
Ayala's B shares, which are open to foreign buyers, closed 1.5 pesos down yesterday at 25.5 pesos.

"There is a lot of negative sentiment in the market at the moment about the Philippine property sector," said

Mr Colbert Nocom, analyst at ING Barings in Manila. "We think that Ayala is being unfairly penalised by the pessimists because it is by far the healthiest property company in the Philippines."

The company, which lifted net revenues 26 per cent to 9.6bn pesos, said strong growth on all fronts had contributed to the earnings performance. Lot sales in the residential, commercial and industrial sectors led the way with a 28 per cent rise.

Most of Ayala's flagship projects, including the new stock exchange tower in Makati, Manila's business district - which posted a 100 per cent occupancy rate - also performed well. Sales of residential lots at Southgate village, an up-market hous-



ing project in Manila, grew 77 per cent to 3.62bn pesos.

The company, which is about to pre-sell condominium units at its Roxas luxury property development in Makati - a joint venture

with Hongkong Land - also posted healthy growth in its middle-income housing projects. The sale of lots at the Madrigal business park and Laguna Technopark also grew strongly, the company said.

Some analysts, however, expressed concern that Ayala's net earnings actually dropped 4 per cent from the first six months of 1996. But the company, whose shares are trading at a 50 per cent discount to net asset value - considered a good indicator of property stocks - said it had postponed big sales until the fourth quarter, to exploit the seasonal rise in prices.

"If the property market does crash in the next few months, Ayala would be well placed to withstand the ill-effects," Mr Nocom said.

in the international call market, in part because of sluggish economic recovery. KDD's international calls are estimated to grow 9 per cent for the year, rather than at its earlier estimate of 11 per cent.

The impact of volume discounts is likely to be Y1.4bn in the first half, rather than Y800m.

KDD forced to cut profit forecasts

By Michiyo Nakamoto
in Tokyo

KDD, Japan's leading international telecommunications operator, has revised downward profit estimates because of weak demand and the impact of discounts it launched to improve international competitiveness.

Net profits are likely to be Y8.3bn, rather than Y9bn as forecast earlier. Sales for the

half-year will be Y166.5bn, rather than Y170bn.

For the full year, KDD expects full-year recurring profits to be Y27bn, rather than the Y32bn forecast, on sales of Y337bn, compared with Y343bn. It sees net profits at Y13.5bn compared with a forecast of Y15bn.

The company blamed slower than forecast growth

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COMPANIES AND FINANCE: ASIA-PACIFIC

Pressure off UTI to sell equity portfolio

By Tony Tassell in Bombay

The Unit Trust of India, the country's biggest mutual fund organisation and largest investor, has signalled that the pressure on it to sell shares to meet redemption payments has eased.

UTI said redemptions dropped sharply in the first quarter to September 30, to Rs14bn (\$39.3m) from Rs26bn in the same period last year. The news is likely to offer some relief to the Indian share market, given UTI's dominance of it.

The trust holds an equity portfolio equivalent to 9 per cent of the market capitalisation of the Bombay Stock Exchange. However, for much of the past two years this traditional supporter of the market has been a net seller of Indian equities because of heavy redemption pressures. Redemptions totalled Rs106bn in 1995-96 and Rs125bn in 1994-95.

UTI's sell-down has been an important factor behind the slump in the market over the past two years. The market indicator, the BSE 30 index, fell from a high of

4,643 in September 1994 to a low this year of 2,320 in January, although it has since rebounded above 3,250.

Mr Jagdish Kapoor, chairman of UTI, said heavy redemptions over the past two years had been driven by tight liquidity conditions in the Indian economy and tax regulation changes which made investment in mutual fund schemes less attractive to corporations.

"Since July, the pressure has eased considerably. Redemptions have been much less," he said.

Mr Rammath Iyer, analyst with brokers Peregrine India, said the reduction in redemptions was good news for the share market. "UTI may still remain marginal net sellers in the market, but they will not be the aggressive sellers they were last year," he said.

Mr Iyer said if UTI selling slowed, prices may be pushed up by a shortage of supply. "UTI is traditionally the first port of call for anyone wanting Indian stocks, and UTI is planning an offshore index-linked mutual fund with Swiss bank SBC Warburg.

The fall in redemptions comes as UTI finalises plans for a restructuring designed to separate its mutual fund operations from retail banking, broking, credit rating and custodial services.

The move is a response to criticism about the transparency and accountability of its operations, and to a challenge to its dominance of the Indian share market by an increasingly competitive mutual fund industry and inflows of foreign investment.

"Since July, the pressure has eased considerably. Redemptions have been much less," he said.

Mr Kapoor said a holding company would be set up to hold stakes in UTI's various operations. The company would then establish an asset management company to run the mutual fund operations on an "arm's length" basis. Shares in the holding company are likely to be offered to Indian financial institutions and the government.

Talks are continuing with Japanese group Nomura over a broking venture, and UTI is planning an offshore index-linked mutual fund with Swiss bank SBC Warburg.

HK groups in fund raisings

By Louise Lucas
in Hong Kong

Two Hong Kong companies involved in China property developments have unveiled details of share offerings timed to capitalise on the surge of liquidity and bullish sentiment in the Hong Kong market.

The first, Concord Land Development, is being spun off from Pacific Concord Holdings, a diversified manufacturing and telecoms company. It is looking to raise about HK\$1.1bn (US\$142.5m) through the sale of new and old shares.

China Resources Beijing Land, the China property arm of China Resources, the

mainland-backed conglomerate listed in Hong Kong, will follow a day later with a HK\$700m fundraising.

Concord Land Development is offering 300m shares at a price of between HK\$3.34 and \$3.56. Some 15 per cent of the stock will be sold through an initial public offering (IPO) which kicks off in Hong Kong today. Dealing in the shares is scheduled to start on November 7.

Net proceeds will be spent on shopping mall developments in Chinese cities. According to the company prospectus, it will have total net tangible assets of between HK\$6.7bn and HK\$6.84bn, giving a net

asset value per share of between HK\$5.58 and \$5.70.

China Resources Beijing Land is also issuing 300m shares, but in a price range of HK\$2.18 to HK\$2.38. The maximum would put the stock on a prospective price/earnings ratio of around nine times. The price will be fixed on Friday and dealing in the shares is expected to begin the following Friday.

Some 85 per cent of the shares are to be placed internationally, with the balance sold to Hong Kong investors. There is a "greenshoe" over-allocation option on the IPO, to 30 per cent of the total, with a corresponding reduction in the international placement.

These companies have had some success at introducing western superstars to Asia, notably Sony's Mariah Carey and EMI's Spice Girls. However, most of the market's

Piracy and sluggish demand have slowed growth in the region

The aisles of the gleaming new HMV record store on the top floor of an Osaka shopping centre are crammed with Japanese teenagers, browsing through the racks or glancing at giant video screens.

HMV's expansion in Japan, and other Asian countries, together with that of rival western record chains Tower and Virgin, helped turn Asia into one of the most dynamic areas of the global music market in the early 1990s.

The multinational entertainment groups that dominate the industry hoped Asia would show strong growth for the rest of the decade. However, music sales stalled in several countries, including Hong Kong, Singapore and South Korea, during the first half of 1996, reflecting slack demand and rising piracy in parts of the region.

Asia has never been an easy area for multinational record companies. Japan is well established as the world's largest music market after the US, but until recently other countries in the region were closed to foreign record companies because of restrictions on inward investment.

As those restrictions have been lifted, the multinationals have moved in. Japan's Sony, PolyGram of the Netherlands, and the UK's EMI have built on existing interests in the region. Warner of the US and Germany's Bertelsmann have expanded their activities there.

These companies have had some success at introducing western superstars to Asia, notably Sony's Mariah Carey and EMI's Spice Girls. However, most of the market's

Western music makers hit sour note in Asia



Home-grown talent: PolyGram signing Jacky Cheung

growth has been driven by indigenous artists, such as Dadawa, the Chinese singer signed to Warner, and Jacky Cheung, PolyGram's Hong Kong superstar known as "The God of Songs".

The record companies' expansion, coupled with that of HMV, Tower and Virgin, has led to improvements in Asian music distribution and to a crackdown on piracy. As a result, retail sales of albums and singles in Asia rose 57 per cent from \$5.15bn in 1991 to \$8.62bn in 1995, according to the International Federation of the Phonographic Industry. Global music sales rose 46 per cent over the same period, from \$27.17bn to \$39.82bn.

Asia is invariably cited as one of the most promising regions in analyses of the industry's long-term prospects. A recent study in Music Business International magazine predicted that its share of the global market would increase from 21.6 per cent in 1995 to 28.8 per cent by 2000, with North America's share falling from 35.4 per cent to 27.5 per cent, and western Europe's from 33.9 per cent to 30.2 per cent.

The first-half slowdown in Asian music sales has cast a cloud over those forecasts. The only Asian markets to show significant growth in the first six months of 1996 were the Philippines, Malaysia and Indonesia. Sales slowed in Japan, and fell in real terms in Hong Kong, Singapore, South Korea and Thailand.

It is too soon to tell whether this sluggishness will herald a prolonged slowdown. One positive sign is that economic growth in the region is still robust. Another is that the expansion of local music media, with MTV relaunching its Asian service to compete

ASIA-PACIFIC NEWS DIGEST

IHI forecasts flat results for year

Ishikawajima-Harima Heavy Industries, the Japanese aerospace, defence and engineering group, yesterday reported a slight fall in profits for the six months to September and forecast flat earnings for the full year.

IHI's recurring profit before tax and extraordinary items fell 2.1 per cent from the first six months of last year, to Y11.06bn (\$97.5m), on almost flat turnover of Y39.22bn. Net profits, however, rose 8.3 per cent to Y6.56bn. It blamed the fall in recurring profits on the costs of streamlining its shipbuilding unit. A tiny sales increase was attributed to stronger demand for machinery from paper and pulp making companies. The group forecast a decline in sales of nearly 2 per cent, to Y38.4bn, in the year to March, because of the slowdown in orders for nuclear reactors. It expects this to be struck on a small increase in recurring profit, to Y25bn, and unchanged net profit of Y13bn. The figures represent a slight upgrading of earlier forecasts, from an initial Y22bn of recurring profit on sales of Y39.0bn. The revisions are based on higher than expected profits on exports, after the yen's depreciation, and increased engineering repair orders.

William Dawkins, Tokyo

ANZ dismisses takeover talk

Australia and New Zealand Banking group (ANZ), one of the country's "big four" commercial banks, yesterday denied a local newspaper report that it was considering a merger with London-based Standard Chartered.

"Whilst we do not normally comment on rumours and speculation regarding mergers or acquisitions, the very specific nature of the article requires this definite denial," it said. ANZ stressed it was not "investigating or discussing" any merger plans with Standard Chartered.

The speculation is the latest in a wave of bid rumours to hit the Australian banking sector. Under the previous Labor government, the four national banks were viewed as secure from takeover. However, the new conservative Liberal-National government has set up an inquiry into the industry. This is expected to review merger constraints when it reports next year.

Already, ANZ and Westpac - which are seen as the most vulnerable to predators - have attracted takeover talk. ANZ shares closed 4 cents higher, at A\$7.20, while Westpac rose 18 cents to A\$6.33.

Nicki Tait, Sydney

Goodman Fielder sees upturn

Goodman Fielder, Australia's largest food group and the focus of institutional investor concerns because of its flat profit performance, has forecast an improvement. "The market will remain tough, but our success in strengthening the company thus far gives me confidence that we will improve our results in the coming year," Mr David Clarke, chairman, said. In 1995-96, Goodman made A\$100.7m (US\$72.7m) after tax but before abnormals.

Nicki Tait

Export growth buoys NSK

NSK, Japan's largest manufacturer of ball bearings, more than doubled first-half pre-tax profits, helped by an improvement in productivity and costs and strong overseas demand. The company, which is strong in ball screws for machine tools, lifted parent pre-tax profits by 128 per cent to Y8.25bn (\$72.7m), while net profit rose 110 per cent to Y4.95bn. The gains came on sales up just 3 per cent to Y17.16bn.

NSK said domestic business fell slightly, mainly because of the downturn in demand from electric machinery makers, which have shifted a considerable amount of their manufacturing overseas. However, demand from the rest of Asia was buoyant, lifting exports 15 per cent. For the full year, the company expects a rise in pre-tax profits to Y15bn on moderately higher sales of Y38.5bn.

Michio Nakazawa, Tokyo

Output setback at Grasim

Grasim Industries, one of India's leading industrial companies, said output fell in the six months to September, except in the cement and sponge iron divisions.

Viscose staple fibre production in the half totalled 69,652 tonnes, down 8.29 per cent, while output of rayon grade wood pulp fell 5.56 per cent to 55,511 tonnes. Caustic soda output was 8.22 per cent lower at 52,795 tonnes.

Cement output, however, totalled 2m tonnes, up 44 per cent; production of sponge iron output rose 68 per cent to 381,157 tonnes. Analysts expect Grasim's net profit for the six months to September to fall 10-15 per cent, from Re1.68bn (\$47.2m) a year earlier.

AFX-Asia, Bombay

Shangri-La in Burma deal

Shangri-La Hotel, the Asian hotel and property development company, will pay \$12.1m for a 28 per cent stake in Burma's Traders Square, which has a contract with Burma's defence ministry to develop a commercial complex in Rangoon.

Ted Bordacca, Bangkok

MEDIOBANCA

SOCIETÀ PER AZIONI
PAID UP CAPITAL LIT. 476 BILLION - RESERVES LIT. 3,855.7 MILLION

HEAD OFFICE VIA FILODRAMMATICO 10, MILAN, ITALY

The Bank's Annual General Meeting, held in Milan on 28th October 1996, adopted the following

BALANCE SHEET AS AT 30TH JUNE 1996

ASSETS	LIABILITIES
CASH AND DEPOSITS WITH CENTRAL BANKS AND POST OFFICES 109,620,476	DEPOSITS FROM BANKS: Interestable on demand 3,109,988,351
GOVERNMENT AND QUASI-GOVERNMENT SECURITIES ELIGIBLE FOR REFINANCING AT CENTRAL BANKS ... 4,394,351,363,249	Term deposits and deposits repayable on demand notice 3,072,205,387,909
AMOUNTS DUE FROM BANKS: Interestable on demand 301,238,172,212	Customer deposits: Repayable on demand 4,003,855,307
Other accounts 1,546,405,582,730	Interestable on demand notice 49,901,252,276
LOANS AND ADVANCES TO CUSTOMERS 19,571,621,170,205	DEBT SECURITIES IN ISSUE: Bonds 9,523,609,352,805
DEBT SECURITIES ISSUED BY: Fiduciary agencies 130,357,867,660	Term deposits 13,117,723,800,780
Banks 94,021,135,256	Certificates of deposit 21,380,332,410,532
of which: One received Lit. 33,807,300,000	
Financial companies 18,000,000,000	OTHER LIABILITIES: Accrued expenses 24,451,957,476
Other issuers 29,172,747,016	Deferred income 23,083,742,778
EQUITY INVESTMENTS 3,370,973,086,257	PROVISION FOR STAFF TERMINATION BENEFITS 25,227,750,259
INVESTMENTS IN GROUP UNDERTAKINGS 90,018,917,687	PROVISION FOR TAXATION 125,661,580,267
TANGIBLE FIXED ASSETS 30,290,346,501	CREDIT RISK PROVISION 303,006,228,356
OTHER ASSETS 20,671,184,856	GENERAL BANKING RISK PROVISION 601,650,000,000
ACCRUED INCOME AND PREPAID EXPENSES: Accrued income 65,711,693,643	SHARE CAPITAL 475,000,000,000
Prepaid expenses 65,772,083,392	SHARE PREMIUM 1,500,000,000,000
of which: Dividends on bonds issued Lit. 3,080,986,640	LEGAL RESERVE 95,200,000,000
	STATUTORY RESERVES 1,652,200,000,000
	REVALUATION RESERVES 1,400,000,000,000
	RETAINED EARNINGS 16,895,769,769
	PROFIT FOR THE YEAR 120,324,106,076
	120,324,106,076
	30,262,658,050,208

It was resolved:
 1. to allocate Lit. 23.5 billion to the Statutory Reserves;
 2. to pay a dividend of 20%, i.e. Lit. 200 per share on all the Bank's 476 million shares currently in issue representing its share capital of Lit. 476 billion.
 The gross dividend of Lit. 200 per share will be payable as from 18th November 1996 upon surrender of Coupon No. 15 at the Company's Office, Via Filodrammatico 10, Milan, and at Branches in Italy of Banca Commerciale Italiana, Banca di Roma, Credito Italiano, and also at Monte dei Paschi di Siena.

JPMorgan

IHI forecasts
results for year

ANZ dismisses
claims

Expert panel
rejects

invented telephone.

(ALSO transistor, laser, Telstar satellite, fibre-optic cable, cellular).

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COMPANIES AND FINANCE: UK

TI faces Forsheda opposition

By Tim Burt

Disgruntled investors in Forsheda, the Swedish polymer engineering company, said yesterday that owners of nearly 30 per cent of the company were opposed to the proposed £18m (\$225m) takeover by the UK's TI Group.

Henderson Investors, which controls 12.8 per cent of Forsheda's quoted B shares, said four other institutional investors were planning to reject TI's cash offer of SKr225 (\$34) a share.

TI, which is also offering SKr247.5 a share for the unlisted A shares, indicated that its advisers were pre-

pared to meet Henderson to try to resolve the dispute, although it reiterated the offer was "full and fair".

The company has already secured irrevocable undertakings to accept the bid from Agora Group, Forsheda's family-owned holding company, which accounts for 63.6 per cent of the A shares and 20.6 per cent of the issued share capital.

However, Mr Andrew McNally, a fund manager at Henderson, said dissident investors could prevent TI from achieving the 90 per cent backing it needed to force minority investors to sell their shares and to consolidate Forsheda's cash

flow in its own accounts.

"We have been contacted by a number of overseas investors who, like us, feel that TI's bid does not fully reflect the value of the group," he added.

Henderson and other investors are expected to seek talks with Forsheda and SBC Warburg, TI's advisers, to discuss the possibility of an increased bid before the offer period expires next week.

Opposition to the Forsheda deal is expected to be discussed today at TI's annual strategy meeting, at which the board and senior operating managers are considering the company's develop-

ment programme for the next three years.

Directors attending the two-day meeting will hear that TI is considering bolt-on acquisitions in each of its three divisions - Bundy, John Crane and Dowty.

Particular emphasis is expected on deals to enhance TI's presence in refrigeration tubing and in polymer engineering. Forsheda would more than double the size of TI's polymer business.

The UK group emphasised that its offer for the listed shares represented a 29 per cent premium to the share price at the end of last month. The B shares yesterday fell SKr1.6 to SKr225.5.

LEX COMMENT
Kenwood

Kenwood Appliances looks a classic target for shareholder activism. So its management should not be shocked at the attentions of rebel investors who want to see the business sold off to all comers. Kenwood has underperformed the stock market by over 50 per cent since its 1992 flotation. And its management has failed to tackle the problems of being a relatively small company in a highly competitive, low technology business. It manufactures too many products for too many countries. The result has been poor control of costs and working capital. Nonetheless, putting Kenwood on the auction block looks unlikely to achieve optimum results.

Kenwood's problems are hardly new, so likely buyers would have been alerted many months ago. Moreover, Kenwood is undergoing management changes. Mr David Nash, who narrowly missed the chief executive job at Grand Metropolitan, has come on board as chairman and is unlikely to allow the performance to continue drifting. Kenwood is already undergoing a much-needed review of its production framework - previously run like separate fiefdoms in the UK, Italy and China - and there should be plenty of scope for cutting costs. Given Kenwood's lowly prospective p/e ratio of 9, a sensible rationalisation programme should generate substantial returns.

The new management team may be unable to deliver, but it is credible enough to deserve a chance. And at least the rebel yell will encourage some urgency.

Kenwood waits on EGM call

By Justin Marozzi

UAVF said Kenwood "lacks highly rated management with marketing flair, has inefficient production systems, faces high distribution and administrative costs and has a worsening balance sheet". The fund has a reputation for tough handling of poor performers, including the property developer Greycourt, where it recently forced an extraordinary meeting.

Kenwood shares tumbled below 200p this summer, after peaking at more than 330p at the beginning of 1994. Yesterday, they closed up 84p to 250p.

Analysts expect institutional shareholders will give the new management time to approach directly.

UniChem makes cost cuts pledge

By Christopher Price

UniChem said yesterday it was confident of realising the "conservative" synergy savings of £20m (\$31m) a year should its £241m bid for Lloyds Chemists, the high street retailer, be successful.

The pledge, in a letter to shareholders, comes 10 days after the company relaunched its campaign to take over Lloyds following clearance from the government for its bid and that of its rival, Gehe of Germany. Gehe has until November 8 to respond.

Mr Geoffrey Cooper, UniChem finance director, defended the decision not to advise shareholders of the

likely dilution to group earnings if the company wins the battle for Lloyds.

"This bid is about the long-term value to UniChem shareholders, not about what happens just in year one." Shareholders were told the cost savings would "result in materially enhanced earnings per share after the first year".

Gehe refused to comment yesterday, but analysts said the German group had everything to gain from delaying its bid in the hope that UniChem's cash and share offer would be further undermined by a fall in its share price. At yesterday's closing price of 250p/kg, the offer was worth £241.5m.

Kepit's holders opt for cash

By Tim Gordon

Kleinwort European Privatisation Investment Trust, the £500m (\$806m) fund, announced yesterday that the majority of shareholders had opted to receive their capital in cash as they voted almost unanimously for its liquidation.

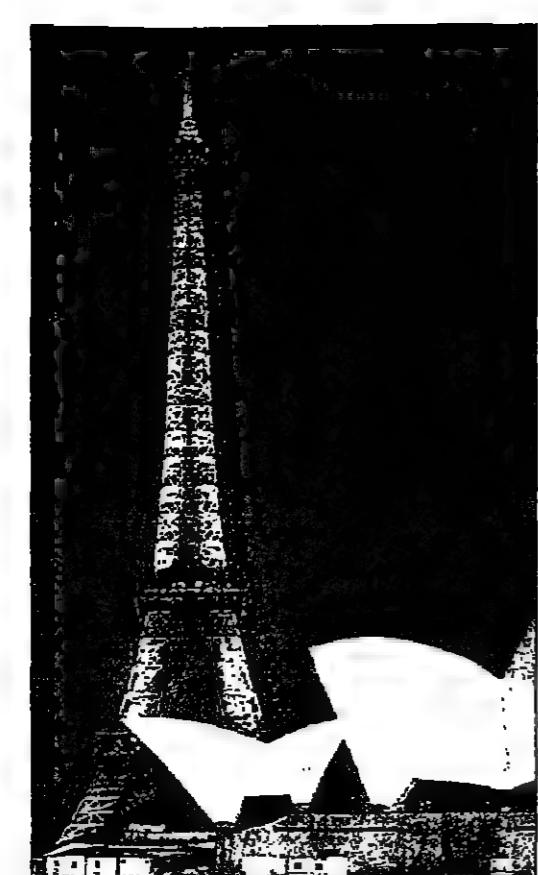
A senior Kepit source said: "This was not the result that the managers wanted at all. They wanted to unite the entire trust." Shareholders will receive cash on about November 25, while the company's liquidation will take about a year. Kepit will trade on a similar, but slightly broader remit, than Kepit, investing in European companies privatised in the past 10 years, compared to Kepit's five.

The majority remaining have opted for the Kleinwort Benson European Privatisation Trust (Kbepit), which will receive some

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends corresponding to	Total for year	Total last year
Carbyne Int'l	6 mths to June 30	13.3	(12.7)	1.89	(2.39)	0.13	(0.07)	nil
Grampian TV	6 mths to Aug 31	11.9	(12.7)	8.15	(2.92)	0.16	(0.51)	2
Invaco	8 mths to Sept 30	173.2	(139.8)	49.5	(37.54)	1.37	(11.4)	1
Old English Pub ♦	6 mths to Sept 30	8.77	(3.05)	0.81	(0.273)	0.73	(1.64)	0.8
Physisphere	Yr to June 30	0.934	(1.11)	0.555	(0.189)	2.541	(1.1)	-
Rossope	Yr to June 30	31.4	(17.29)	0.1724	(2.944)	0.02	(3.29)	-
Sofeland	6 mths to Sept 30	16.49	(15.48)	1.3	(1.03)	3.29	(2.77)	0.53
UK Estates	Yr to June 30	5.07	(4.37)	0.382	(0.61)	0.47	(1.01)	0.2
Investment Trusts								
M&G Equity Income	Yr to Sept 30 *	173.1	(162.7)	2.21	(2.02)	5.29	(5.85)	3,300
Murray Enterprise	Yr to Sept 30 *	151.16	(134.39)	0.829	(0.874)	2.42	(2.75)	2
Overseas	Yr to Sept 30 *	476.8	(422.9)	1.65	(1.6)	4.88	(4.2)	2.75

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *After exceptional charge. **After exceptional charge. ***After exceptional credit. £On increased capital. ♦Incl stock & Companions mutual. *Includes Foreign Income Dividend.



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RANDGOLD

SUMMARY OF GOLD MINING COMPANIES' REPORTS FOR THE QUARTER ENDED 30 SEPTEMBER 1996

BLYVOORUITZICHT GOLD MINING COMPANY LIMITED



(Reg. No. 05/09743.001 Nasdaq No. BLYC)

FINANCIAL RESULTS (R9000) Quarter 30/9/96 Quarter 30/6/96

Cash operating profit 7,090 8,403

Cash profit after taxation 11,494 9,601

DEVELOPMENT RESULTS

Advance Sampled Current with on Capital cash

Carbon Leader 775 64 25 1467 3,146

Hail Reef 62.0 58 22 22.9 463

The Western Deep Levels Tribune, and extension, has been purchased for £25.5 million.

The continued underground build-up resulted in an increased coverage of 5.4% being processed.

♦

DURBAN RODEPOORT DEEP LIMITED



(Reg. No. 01/00236/04 Nasdaq No. DROOY)

FINANCIAL RESULTS (R9000) Quarter 30/9/96 Quarter 30/6/96

Cash operating profit 4,385 4,532

Cash profit after taxation 8,429 8,168

DEVELOPMENT RESULTS

Advance Sampled Current with on Capital cash

Kroon Reef 265.5 297.0 25 1,147 3,146

Hail Reef 164.4 169.5 127 53 621

Kroon Reef 736.4 672.5 123 3.9 479

Bird Reef 102.1 93.0 104 7.9 261

♦

Gold production decreased by 31 kg as a result of inconsistent grade recoveries.

♦

THE GROOTVLEI PROPRIETARY MINES LIMITED



(Reg. No. 01/00238/05 Nasdaq No. GVPWY)

FINANCIAL RESULTS (R9000) Quarter 30/9/96 Quarter 30/6/96

Cash operating profit (3,781) 3,913

Cash profit after taxation (4,066) 4,772

DEVELOPMENT RESULTS

Advance Sampled Current with on Capital cash

Black Reef 152.6 160.5 46 21 1,026

Kroon Reef 705.3 650.5 16 21.5 351

♦

Gold production decreased by 31 kg as a result of inconsistent grade recoveries.

♦

THE GROOTVLEI PROPRIETARY MINES LIMITED



(Reg. No. 01/00238/05 Nasdaq No. GVPWY)

FINANCIAL RESULTS (R9000) Quarter 30/9/96 Quarter 30/6/96

Working profit (137) 1,734

(Loss) profit after taxation (611) 1,539

DEVELOPMENT RESULTS

Advance Sampled Current with on Capital cash

Vaal Reef 101 60 76 22 3,023

♦

Vaal Reef targets were achieved and the operating cost programme has been accelerated to improve available ore reserves.

♦

STILFONTEIN GOLD MINING COMPANY LIMITED

Kenwood

COMPANIES AND FINANCE: UK

Biotechnology 'angels' fund is launched

By Daniel Green

Britain's first biotechnology "business angels" fund is being launched today. Backed by Mr Chris Evans, the biotechnology entrepreneur behind three companies already quoted on the stock market, the fund aims to put up to £50m (£78m) into university and hospital science.

The fund intends to plug a gap in UK venture capital, highlighted yesterday in a Bank of England report, which leaves technology start-up companies starved of cash.

Conventional venture capital usually invests in lower risk management buy-outs. The few specialist biotechnology funds in the UK invest mostly in the US and tend to avoid scientists who have not already written a business plan.

The "angels" fund has two components. Merlin Ventures, majority owned by Mr Evans, will identify interesting science projects in UK universities, and the Merlin Fund will invest City of Lon-

don money in companies started by Merlin Ventures.

Merlin Ventures aims to create viable companies by bringing together potential new medicines and technologies from different universities and hospitals.

It will invest an average of about £250,000 in each start-up. The money will come from Mr Evans and his associates who will also help write the business plans, form the management structures and set the commercial strategies.

They will also try to bring together science and scientists to create companies which have "portfolios" of new products under development. This is designed to spread risk and is the normal structure for biotechnology and pharmaceuticals companies.

In the US, home to most of the world's biotechnology companies, wealthy individual "business angels" are an established source of funds for high technology start-up companies.

The spark that lights up world interest

Simon Holberton looks at the global focus on the UK's electricity independents

Yesterday's £766m (£1.2bn) bid for Northern Electric, the north-east of England electricity company, may herald the beginning of another wave of takeovers in the UK electricity sector.

Northern is one of five of the original 12 regional electricity companies in England and Wales that remain independent. "The Northern bid is the opening shot in a renewed wave of corporate activity," said Mr Michael Cohen, utilities analyst at Salomon Brothers.

Three regional electricity companies - Seaboard, South Western and Midlands - have already fallen to US bidders. Mr Cohen said he expected more to follow.

"US companies are looking at the UK as the most advanced privatised utilities market in the world. Northern is a foothold in the UK as well as Europe."

CE Electric UK, the bidder for Northern, is a partnership between CalEnergy, a US independent generator, and its largest shareholder Peter Kiewit Sons, a US construction group. CalEnergy owns 70 per cent of CE Electric.

Mr David L Sokol, CalEnergy's chairman and chief executive, said that while financial considerations were important the bid for

Northern was about "strategy". "There is an acceleration in deregulation around the world. There are enormous opportunities in supply and distribution."

He also sees opportunities to use Northern's supply expertise in the US market, itself in the throes of deregulation. Mr David Morris, chairman of Northern, said yesterday it was nice to hear that CalEnergy valued his company's expertise so highly. "I have no doubt that they are reputable people and serious players."

However, he said the bottom line was value. "The way CalEnergy has in mind is slightly different from where they started. It's difficult to see a basis for talking." He suggests that when the two had talks last week CalEnergy mentioned a figure of about 700p, not the 630p now being offered. Mr Sokol countered that CalEnergy did not make a formal offer and that 630p "fully valued" Northern.

While the share price jumped from 520p to 642p, some utilities analysts thought 630p was fair. Merrill Lynch said the offer, adjusted for Northern's capital restructuring in the wake of Trafalgar House's abortive

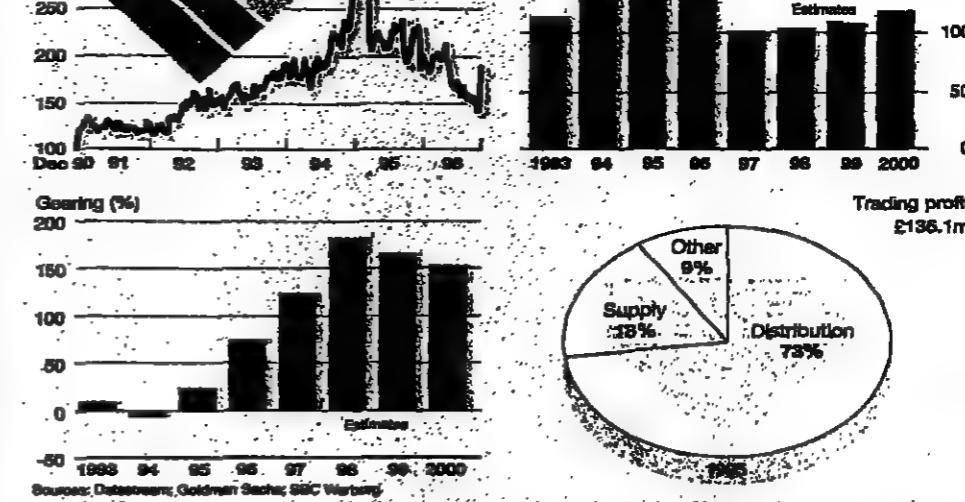
Current situation

Share price relative to the FTSE All-Share Index

Pre-tax profits (£m)

Trading profit £136.1m

Source: Datastream, Goldman Sachs, SBC Warburg



average of 6.8. At 630p CalEnergy's bid came in at 6.8 years. "The price is fair," said Mr Nick Pink, the bank's utilities analyst.

However, other analysts say that if CalEnergy wants a trouble-free acquisition it will have to pay a little more.

As part of Northern's defence, Mr Morris said its interim results, brought forward, would show it was doing better than many assumed. Analysts had been more conservative in their forecasts of gearing, he said, indicating it would be lower than the 125-130 per cent assumed by the market.

Mr Morris agreed that the company could not embark upon another "return of value" exercise. "There isn't going to be an enormous cash handback to shareholders," he said. "But there are other things such as what management is doing to maximise shareholder value through policy and action."

The bid will be considered by the government and by Professor Stephen Littlechild, the industry regulator. Most observers believe it will be waved through, although Mr Pink dissented because "Littlechild needs stock market comparators".

Middlesex casts investor net wider

By Jane Martinson

Middlesex Holdings, the diversified company which specialises in commodities in the former Soviet Union, joined the main market yesterday as part of a push to attract more institutional investors for the next stage of development.

The three-year-old company's activities include a financial services division as well as ventures in the steel, oil, coal and gold industries.

Lord David Owen, who became chairman a year ago, said the company had succeeded in Russia because of the strength of its personal relationships.

Mr Masoud Alkhani, chief executive and Middlesex's largest shareholder with a 12 per cent stake, had been working in the area for three years prior to the formation of the company, which was named after an English county cricket club.

Lord Owen said it was "extraordinary opportunities" in Russia which had attracted him to Middlesex.

The company sometimes operates via pre-financed deals to facilitate the export of the overcapacity in Russia's large manufacturing industries.

The shares were unchanged at 64p, valuing the company at £40.4m.

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2. Interest Amount payable on Interest Payment Date: 277.83
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INTERNATIONAL CAPITAL MARKETS

Brazil seeks \$750m in first global issue

INTERNATIONAL BONDS

By Samer Iskander

Falling European government bond markets yesterday failed to stem the flow of new eurobond issues, as borrowers inundated the primary market with new paper.

Brazil returned to the dollar sector for the first time since 1982, launching its first global issue - \$750m of five-year notes. Mr Gustavo Franco, director of the international department at the central bank, said the issue was "the big test" for the country. "Today we are exposing ourselves to the judgment of the market."

Mr Franco said that with nearly \$60bn in foreign reserves - covering a whole year of imports - the country did not need the money. "The transaction will mainly serve the private sector," he said. "By establishing a sovereign benchmark, we will

give corporate borrowers access to cheaper international financing."

J.P. Morgan, joint lead manager with SBC Warburg, said the pricing had been set in the middle of the announced range of 255 basis points to 275 basis points over US Treasuries, "to take account of market conditions".

But rival banks still described the issue as "over-priced" or "too tight" - it cheapened by the end of the day to a spread of about 260 points. They compared it to Mexico and Argentina, whose similar bonds trade at more generous spreads - 335 and 400 basis points respectively.

SBC Warburg said the pricing had "more to do with Brazilian economic fundamentals than a rating perspective". It also pointed out that the strong Asian demand, about 40 per cent of the amount, consisted mainly of "first-time buyers of Brazilian exposure".

Government bond prices yesterday drifted lower, with high-yielding European bonds underperforming. And as the market continued to digest the implications of last week's comments by Bundesbank officials that further interest rate cuts are unlikely, a mild sell-off in the shorter-dated paper led to some flattening of the German yield curve.

In the London futures market the Italian BTP pits were the focus of attention

Mr Franco also said the ratings of B1 and B+ by Moody's and S&P were "perhaps lagging behind the economic situation", but predicted this situation "should correct itself over time".

Deutsche Pfandbrief, the German bank, launched two issues, the larger of which consisted of profit-sharing certificates maturing in 2012. It pays a coupon of 7.65 per cent, which is scrapped if the bank makes losses in any particular fiscal year. Unpaid coupons would be paid retroactively once the institution returns into profit.

This structure allows the funds to qualify as tier-two capital, raising DePfa's capital ratio more than 2 percentage points to 14 per cent - the tier-one capital ratio stands at 7 per cent.

Mr Frank Rohland, DePfa treasurer, said the deal was still supported by the lira sector, which will be holding

the paper on its books for several days, until the whole amount has filtered through to final investors.

Elsewhere, the lira sector was still strong, which could lead to other increases for

New international bond issues

Borrower	Amount	Coupon	Price	Maturity	Fees	Speed	Book-runner
US DOLLARS							
Federative Rep of Brazil	750	8.975	99.888	Nov 2001	0.50	2650/1%+0.01	J.P. Morgan/SSC Warburg
Japan Highway Public Corp	300	8.969	99.808	Nov 2008	0.50	2690/1%+0.01	Nomura Inst.
Hitachi Credit Corp	200	8.825	99.718	Nov 1998	0.50	345/0.5%+0.01	J.P. Morgan
BES Overseas Ltd	250	(4) 100.000	perpetual		3.15%		Merrill Lynch/BSS/B. E&I
DM-IRAN							
Hypothekenbank in Emden	200	7.75	99.76	Feb 2004	0.51	-	
DePfa	750	7.55	100.00	Jul 2012	undisc	-	
Deutsche Ausgleichsbank	500	6.125	99.308	Nov 2008	2.50	-	
DePfa (Bank)	300	4.05	99.85	Nov 2001	0.15	-	
US\$ (Bank)	100	2.50	99.958	Nov 1998	0.251	345/0.5%+0.01	UBS
DM-IRAN							
New South Wales Treasury	200	6.00	99.93	Nov 1998	1.375	-	
Taiyo Finance Australia	100	7.00	101.27	Dec 2001	2.00	-	
NEW ZEALAND DOLLARS							
Council of Europe	100	7.00	100.00	Nov 1998	0.80	-	
DM-STYLING							
Nippon Telegraph & Telephone	250	7.208	99.918	Dec 2000	0.1177	100/0.5%+0.01	BZW
DM-ITALY							
Deutsche Bank	5000m	200	23.51	Nov 1998	2.00	-	
Credit Lyonnaise	2000	8.125	101.00	Dec 2000	0.50	-	
IMI Bank Int'l. Cayman	3000	7.50	101.404	Dec 2001	1.375	-	
DM-PRESTIGE							
Nordic Investment Bank	140m	7.75	101.45	Dec 2000	1.75	-	
ECU							
Kreditanstalt Int'l Finance	50	5.00	101.70	Dec 2000	2.00	-	
DM-ITALY-DMC							
Postbank	1000	1.00	100.00	Nov 1998	0.50	345/0.5%+0.01	Deutsche Bank
DM-ITALY-DMC							
Deutsche Pfandbrief	5000m	200	23.51	Nov 1998	2.00	-	
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DePfa (Bank)	300	4.05	99.85	Nov 2001	0.15	-	
US\$ (Bank)	100	2.50	99.958	Nov 1998	0.25		

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FINANCIAL TIMES SURVEY

Tuesday October 29 1996

THE NETHERLANDS

European business hub

The stock of foreign capital employed in Dutch business represents more than a quarter of the country's gross domestic product, compared with a European Union average of about half that, writes Gordon Cramb

Fokker, the Dutch aerospace company, has been grounded virtually all year and Philips, Europe's biggest maker of electronics goods, is suffering a profit short-circuit.

Yet, while these two corporate agonies have together cost several thousand Dutch jobs, many more are being created - at a rate not seen since the 1960s - as the Netherlands experiences a consumer-led mini-boom and multinationals' position themselves for European monetary union.

The guilder looks certain to join the single currency group, if the project proceeds on schedule in little more than two years. This expectation was reinforced last month by The Hague's budget for 1997, the year on which Emu eligibility will be assessed.

Government debt levels remain out of line but are coming down, with a public borrowing requirement 4.5 per cent lower next year at Fl33.5bn. Mr Gerrit Zalm, finance minister, was at the same time able to cut corporate taxation by about Fl1bn and seek to regain specialist deal-making business recently lost to locations such as Belgium and Ireland.

Multinationals are being offered an effective tax rate of just 7 per cent on profits derived from, say, an acquisition paid for through a Dutch holding company.

The Netherlands has long attracted relatively large amounts of inward direct investment. Indeed, the stock of foreign capital employed in Dutch business represents more than a quarter of the country's gross domestic product, compared with a European Union average of about half that.

About half the total now resides in the services sector. Apart from traditional tertiary businesses such as the shipping lines which operate from Rotterdam - still the world's largest port - numerous US software houses now use the country as a base for call centres which provide customer support for users around Europe.

The country, nevertheless, experiences a large net capital outflow each year, about half of which stems from direct investment by its own internationally-minded corporate sector in search of opportunities beyond a home market of just 15.5m people. At the same time, that home market is both spending more, and being better served. Job creation, at 110,000 posts of at least 12 hours a week, this year, is improving real disposable incomes in Dutch households, even though wage rises trail behind an already modest inflation rate of barely 2 per cent.

Deregulation has this year removed most restrictions on shop opening hours, while telecommunications will be opened to full competition from mid-1997. A more rigorous government approach to competition policy aims to lower entry bar-

riers to the professions and purge price fixing agreements.

Research by the Central Planning Bureau, a state-funded forecasting unit, finds the Dutch market characterised by "a lack of financing opportunities for potential market entrants, aggressive pricing to discourage new players by companies that have incurred high fixed costs in the past, and tacit agreements among producers at the consumer's expense". This is now supposed to change.

One motive force is the presence in the three-party ruling coalition, since 1994, of the free market VVD. It has campaigned for competition and propelled a reform of the country's generous social security provisions.

"We have reached a new consensus," declares Mr Frits Bolkestein, VVD parliamentary leader. "The old one was Keynesian, where the government has to solve all problems. The new one is supply-oriented, with a market approach and financial stimuli."

Mr Bolkestein is a controversial figure in Dutch politics, the nearest thing the mainstream gets to a Eurosceptic. In the past month, the controversy surrounding him has focused on a different issue.

It emerged that as a non-executive director of the local subsidiary of Merck,

the US pharmaceutical company, he lobbied Mrs Els Borst, health minister, on

licences and health service

prices for its drugs.

Against accusations that this amounted to an improper use of his parliamentary position, the affair has brought to the surface tensions in the coalition which also includes the social democratic PvdA of Mr Wim Kok, prime minister, and the reformist D66.

"If I had spoken in favour of a failing company like Fokker I would have been applauded," Mr Bolkestein notes acidly.

As talks ground on last week between the receivers of the aircraft maker and South Korea's Samsung,

"I think that's true," says Mrs Saskia van Opijken, company secretary of Fortis, the insurance and banking combine with twin headquarters in Brussels and Utrecht. She adds that "for Fortis, one can also argue that because it is not only Dutch, the freedom of services might be a great opportunity".

Mr Aad Jacobs, chairman of ING, the Dutch financial services group, insists: "Foreign companies will have a tough time in penetrating the Dutch market - because it is so open and very competitive." But he warns that "all companies have to lower their cost base."

The Dutch government is used to the responsibilities as well as the benefits of EU membership, but will have to work harder to explain these now that the country is a net contributor to Brussels' coffers.

Premier Kok is today due to open Schiphol's World Trade Centre, an office complex at the state-run airport which represents part of its effort to secure a slot as a European "mainport". His officials are meanwhile preparing for the country again to assume the rotating EU presidency from January.

An Amsterdam summit is intended to put the finishing touches to Emu planning. The last time the Dutch were in the chair, the monetary union quest began and a small southern city called Maastricht found itself emblazoned on the modern European map.

IN THIS SURVEY

- The economy: Emu targets pose few problems
- Stock market: Strategy for a single entity
- Inward investment: An unrivalled distribution network
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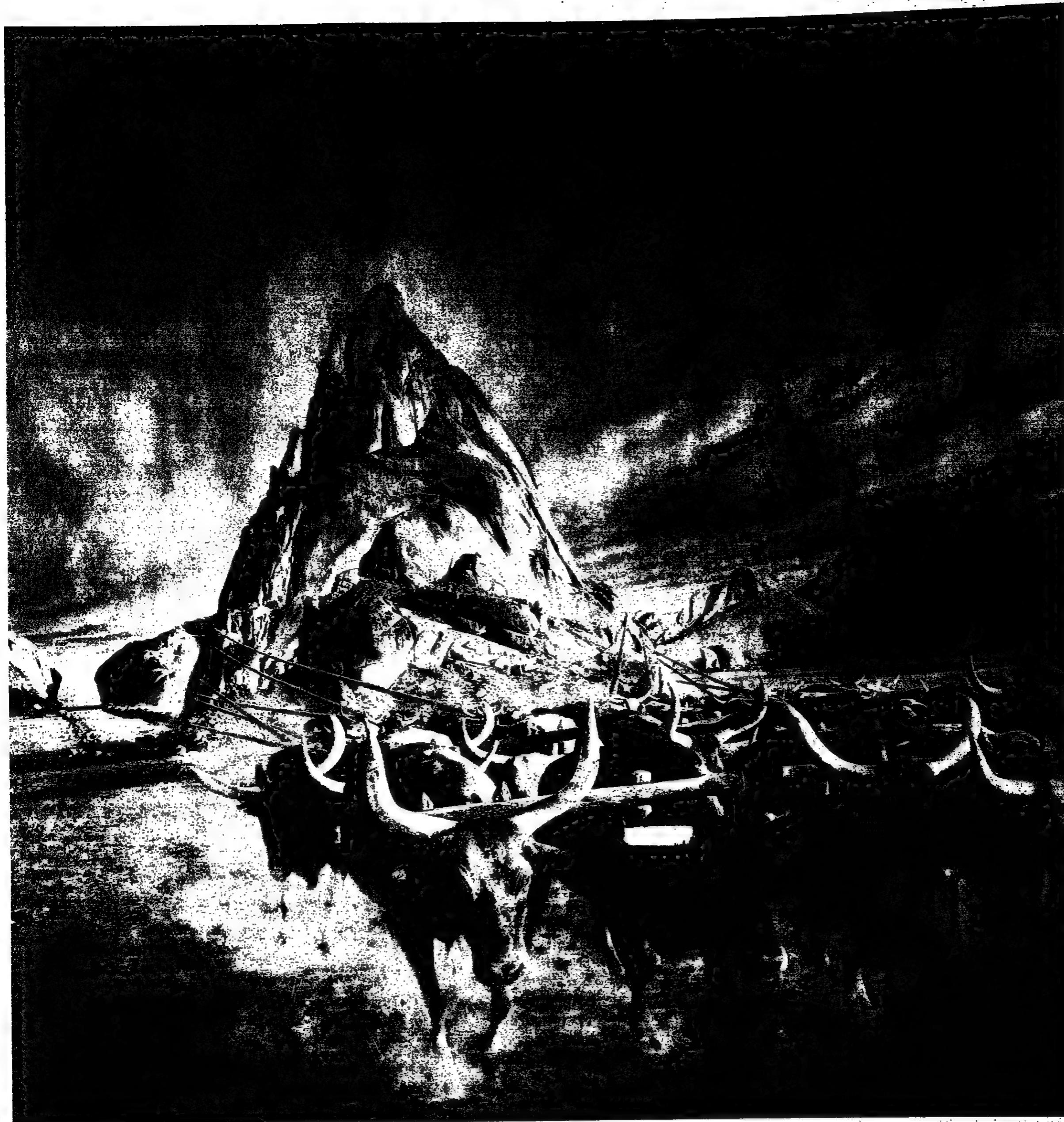
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NORTHERN IRELAND

The only game in town

While prospects for the multi-party talks look increasingly fraught, the politicians are still at the table, writes John Murray Brown

What a difference a year can make. Less than 12 months ago, Northern Ireland was basking in the reflected glory of US President Bill Clinton's triumphant visit. The guns were still silent, Belfast was preparing for its second bumper Christmas in succession. Tourists were arriving in record numbers along with promises of new investment. Many must have believed they had seen the last of the violence that had disfigured the province for more than 26 years.

Surveying the same landscape today, it is easy to be despondent. Divisions between Protestant and Roman Catholic communities appear more bitter than ever. Disputes over the summer's marching season have seen extremists on both sides inflame sectarian hatreds.

February's massive explosion in London's Docklands signalled the end of the IRA's 18-month ceasefire. With the bomb attack on the British army headquarters at Lisburn earlier this month, the IRA shattered any lingering hopes it might be contemplating an early restoration. Road barriers are back in place in central Belfast. Soldiers again patrol the streets.

Over the summer tensions between the two communities were exacerbated by the stand-off at Drumcree where police forced protestants off the streets to allow a protestant Orange march through a Catholic housing estate. The event has coloured subsequent developments.

Against this background, few hold out much hope for the multi-party talks at Stormont. Yet the politicians remain at the table. British ministers point out that no party has yet walked out, although they voice disappointment at the slow progress. The vexed issue of the decommissioning of terrorist arms has still to be resolved but before Christmas, London and Dublin plan to present legislation providing a limited terrorist amnesty.

No one underestimates the difficulties. Even with 18 months of ceasefires, the political nature of the dispute - rival claims of those wishing to remain within the UK and those espousing a united Ireland - remains as intractable as ever.

There are positive developments. Even in hardline republican areas, there is little taste for a return to war.

Belfast's inner city is starting to reap the benefits of the government's policy of targeting social need. These areas will suffer most from a resumption of full-scale inter-communal violence.

The end of the IRA ceasefire put pressure on loyalist paramilitaries to retaliate. But their political representatives, the Progressive Unionists and Ulster Democratic party, have so far shown restraint, even expressing willingness to engage with republicans.

By contrast, the main-stream unionist parties still insist the IRA first take some of its arms out of commission. As one Catholic businessman put it: "The

real intransigent unionists are not in the working class estates but in the middle class golf clubs."

There are signs inward investors are prepared to take a long-term view. Only last week AVX, a US electronics company announced a £45m expansion of its Coleraine plant. The Industrial Development Board reported a record year for investment in 1985/86, raising its jobs target for the next three years from 12,000 to 18,000.

Despite a short-term blow to tourism, three new hotels are going up in Belfast.

Some sections of the business community, however, have voiced concern over the political impasse. In September, a group of industry and labour leaders took the unprecedented step of holding

a meeting at Stormont to urge all the parties to urge upon them the need for a settlement.

The broad elements of that deal have been conceded by both traditions: a restoration of a devolved administration in exchange for an added Irish dimension through the setting up of cross-border institutional links with the Irish Republic.

The prospects for progress depend as much on events beyond Northern Ireland as at home. The US administration - critical in persuading the IRA to call its first ceasefire - has visibly cooled towards the republicans with the resumption of violence.

While the presidential election campaign is on, the Irish lobby will be hard to

ignore. Only last week, Vice-President Al Gore told an audience of Irish-American businessmen in New York that "the President and I will do all we can to encourage those who would lay down their arms and walk on the path of peace".

But with the election over, Ireland may well slip down the list of priorities for a new administration.

In Ireland, too, a general election next year could change the dynamics of the peace process.

John Bruton's Fine Gael-led coalition has enjoyed cross-party support on the peace process.

But if the main opposition Fianna Fail party, historically the guardian of constitutional republicanism, emerges victorious, Sinn Féin may find it has a more

sympathetic ear in Dublin.

A change of government in London is perhaps more likely. Labour has hitherto pursued a bipartisan approach. But Major's Mowlam, the shadow Northern Ireland secretary, has indicated Labour might be more flexible on the terms for Sinn Féin's admittance to talks, if the IRA were to call a new ceasefire.

In Ireland, however, is unlikely to be a key issue in the British election. Prime Minister John Major has refused to let party advantage interfere with his stewardship of the peace process.

But his wafer thin majority in the House of Commons means he is wary of alienating the Unionists, who although loosely allied to the Conservatives, have recently

flirted with Labour.

The government's approach has hitherto been one of incremental gains. A pre-election surprise on Northern Ireland has been ruled out, particularly after the announcement that Sir Patrick Mayhew, the Northern Ireland secretary, is not to contest his seat.

More critical could be the fall-out for the Northern Ireland parties. On the unionist side, the arrival of the small fringe loyalist parties represents a further fragmentation of the protestant vote. As ever, David Trimble's Ulster Unionists, the province's largest party, is anxious not to be outflanked by the Rev Ian Paisley's hardline Democratic Unionists.

As polling day approaches, prospects of a breakthrough will recede as politicians take up entrenched positions.

Uncertainty prevails in the nationalist camp too. Sinn Féin achieved an impressive 15 per cent of the vote in the special election in May to elect delegates for the negotiations. The party could well overtake the moderate nationalist Social Democratic and Labour party, emerging as official interlocutor of the Catholic minority. This might play into the hands of moderates who espouse the political route. Whatever the response, Sinn Féin will be harder to ignore.

Prospects for the talks look increasingly fraught. But as one British official put it: "They're the only game in town".



Has it all gone wrong? The vexed issue of the decommissioning of terrorist arms has still to be resolved. But no party has yet walked out of the talks

Photo-montage Andrew Burn

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2 NORTHERN IRELAND



Marjorie Mowlam: a contrast with the current secretary of state

■ Labour policy: by John Kampfner

Business as usual

Labour has made clear it would not alter principles guiding the peace process

What, if anything, will change in Ulster if Labour wins the next general election in the UK? Indeed, within a year, the British and Irish governments driving the search for a new settlement for Northern Ireland may well have changed.

Labour insists that Tony Blair, as prime minister, will not deviate from the principles that have guided the Anglo-Irish process for the past decade. Since being appointed by Mr Blair as shadow Northern Ireland secretary in 1994, Marjorie Mowlam has steered Labour along a firmly bipartisan approach with the ruling Conservatives.

Strains have been felt during that time, most recently in the government's response in January to Senator George Mitchell's report on weapons decommissioning, and in the Royal Ulster Constabulary's handling of the unionist march at Drumcree in July. But, time and again, Labour has supported government legislation relating to the province, and made clear it would not exploit the issue in any vote of confidence in the Tories at Westminster.

The stance taken by Ms Mowlam is radically different to that of her predecessor, Kevin McNamara, who as shadow spokesman on Northern Ireland for seven years pursued an agenda closely allied to Irish nationalists.

The clearest distancing of Labour's past was the party's decision this year not to oppose the renewal of the Prevention of Terrorism Act, legislation that gives the Home Secretary powers to

exclude individuals from the British mainland. Twenty-three Labour MPs defied orders to abstain in the vote, serving notice that a rump of the parliamentary party is opposed to the shift in Ulster policy.

The rebels are mainly left-wingers of the old order. Mr Blair, who has consistently ignored them, demonstrated his toughness last month when he warned Jeremy Corbyn he could be thrown out of the party if he hosted a book launch in the House of Commons for Gerry Adams, the Sinn Féin president. Mr Corbyn backed down.

One of the justifications given by Labour for its co-operation on Northern Ireland is that it has allowed John Major to face down the strong Unionist lobby among the Tories. Also, leaving what Ms Mowlam calls "not a cigarette paper" between the IRA and the IRA they had a duty "to take the path of peace. Honour it and you shall play your part. Fail in that duty and I swear to you the search for justice and reconciliation will carry on without you".

While maintaining the current approach on the talks, Labour insists it will differ from the present on a number of day-to-day issues. It will introduce reforms of policing, put a greater emphasis on fair employment, and pursue plans for an independent commission to arbitrate on sectarian marches.

Labour will also support more vigorously partnership projects established by the European Commission, bringing with them a large influx of EU regional aid. It will incorporate into law the European convention on human rights, and a freedom of information act, with ramifications for the province, as well as a bill of rights specific to Northern Ireland.

From its first day in power, a Labour government would have to pick up the reins of the multi-party negotiations in Belfast. Ms Mowlam, who is likely to retain her portfolio, has assiduously courted all the main political and business figures in the province. With her informal manner, she will provide a stark contrast with the current secretary of state, the somewhat aloof Sir Patrick Mayhew.

Curiously, the two have developed a good working relationship, with Sir Patrick allowing his senior officials to brief Ms Mowlam

under Labour as the Tories.

Chronology of the past two years

- Dec 15 1993: British Prime Minister John Major and Irish counterpart Albert Reynolds unveil the Downing Street Declaration which seeks to find peace in Northern Ireland.
- Sept 1 1994: Irish Republican Army announces ceasefire.
- Oct 14: Pro-Union "Loyalist" guerrillas start truce.
- Dec 9: British government officials hold first public meeting with Sinn Féin, political wing of IRA, in 22 years.
- May 10 1995: Britain ends 23-year ban on ministerial talks with Sinn Féin. The two sides meet to review how to secure peace.
- June 16: Sinn Féin formally breaks off exploratory peace talks with Britain, angered at British attitude to IRA arms.
- Nov 30: US President Bill Clinton visits Belfast and Londonderry.
- Jan 24 1996: The Mitchell commission proposes all-party talks alongside a phased surrender of guerrilla weapons. Major announces elections in Northern Ireland to pave way for talks.
- Feb 5: An IRA statement says it is abandoning the ceasefire. A bomb blast in the Docklands in the east London east injures 100 people and kills two.
- Feb 28: Major and Butcher have peace process and agree June 10 date for all-party negotiations. They say Sinn Féin will remain outside unless the IRA ceasefire is reinstated.
- May 30: Elections in Northern Ireland for Peace Talks Forum, to run alongside all-party peace talks, see Sinn Féin take 15 per cent of the vote.
- June 16: Multi-party talks on the future of Northern Ireland begin in Belfast, but Sinn Féin is excluded.

■ Multi-party talks: by John Kampfner

Players still at the table

Despite serious set-backs, no one has yet dared to pull the plug on the peace process

They could not have started less auspiciously. The multi-party negotiations on Northern Ireland, the holy grail for the British and Irish governments and for several of the political parties, almost collapsed the day they began on June 10.

Ten parties were to gather at a nondescript government building on the edge of the forbidding Stormont estate east of Belfast. They had received their mandate at elections on May 30.

In the preceding years, London and Dublin had held out the talks as the final stage in determining a new arrangement for Ulster. They were to enshrine a new era of democratic politics, with politicians eschewing the demagogic that had characterised many of their approaches. It was not to be.

The first day was dogged by the arrival of a Sinn Féin

cavalcade demanding to be let in. The party had been refused entry to the talks because of the IRA's refusal to restore the ceasefire it broke by setting off a bomb in London in February. Inside, the building, the main players were exchanging insults in the corridors. The Unionists said they would obstruct the process at each step unless they got their way.

Their first objection was the appointment of former Senator George Mitchell, President Bill Clinton's envoy to the province, whose report on the issue of paramilitary decommissioning had been largely well received in January. Mr Mitchell's problem was that he was American Unionists, arguing he was inherently biased, called for him to be removed. One official recalls that Mr Mitchell and his Canadian and Finnish deputies, John de Chastelain and Harri Holkeri, were on the point of packing their bags.

They didn't, and the talks ground into action. It took British ministers several days to persuade the main unionist party, the Ulster Unionists, to give Mr Mitchell a chance. The other two more recalcitrant groups, the Rev Ian Paisley's DUP and Robert McCartney's UKUP, dropped their threat of a boycott - but only after a long struggle.

Officials clung to every minute sign of progress. Mr Mitchell's aim was to avert a walk-out by any of the main players, which would have led to a collapse in the talks and raised prospects of a descent into all-out violence. Each IRA terrorist attack during the talks made his task more desperate.

On July 28, a small but significant breakthrough occurred. David Trimble of the Ulster Unionists and John Hume of the SDLP settled on the outlines of the way ahead. They agreed on the definition of the consensus needed for progress. This involved the two governments, a majority of the parties at the table, and a majority of both the minority nationalist and majority Unionist communities. The UUP and SDLP, backed by smaller moderate groups,

could achieve that. The onus would be on the hardliners DUP and UKUP to join them.

After a long summer break - peppered with the crisis over sectarian marches the negotiations returned. Few hopes were invested, as the parties had yet to agree an agenda for the opening of the talks.

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1995. The first "strand" involves new internal arrangements for the province, including some form of assembly; the second, and the most controversial, sets out cross-border co-operation between Ulster and the Irish Republic; the third relates to relations between London and Dublin. Mr Mitchell hopes they could be running by the start of 1997.

The bottom line will be the politicians' commitment to making compromises needed to move the process forward. All must look over their shoulders. Mr Trimble has taken a risk in making overtures to moderate nationalists. Mr Hume has antagonised some in his community by accepting Sinn Féin's political line.

Much will depend on Mr Paisley and Mr McCartney, who are vying to outperform each other according to the traditional Unionist doctrine of seeing any concession as tantamount to heresy. Much of it is posturing. A point that could have been made in a few minutes has often taken three hours of hectoring. Yet all the permitted participants are still there. For all the problems, no-one has yet dared to pull the plug on the process.

reports a fourfold increase in corporate activity as Northern Ireland firms start to take advantage of the increased international interest in the province.

Hambros Northern Ireland Venture Managers has just completed its second deal under a £120m venture capital fund, part financed by the European Union.

Continued on page 4

■ Economy: by John Murray Brown

Success for the fleet of foot

In a climate where confidence is elusive, the ability of business to adapt is crucial

Confidence is an elusive business attribute, and nowhere more so than in Northern Ireland. A survey by accountants Coopers & Lybrand earlier this month suggested 80 per cent of businesses are concerned that the political instability could affect their trading performance, with less than 40 per cent forecasting an improvement in the economy. Such lack of certainty does little to help business, although local companies are notoriously risk-averse.

Take this year's Smart awards, the DTI's national campaign to support innovation by young companies. Radiocontact, a small electronics company in Castlerock had been a winner on two earlier occasions during the "Troubles", with its proprietary alarm systems for the security service industry.

With the ceasefires, interest from the Ministry of Defence dried up. Plans to install the product at Belfast's Aldergrove airport were put on hold. As a result the company was forced to look more at civilian applications of its technologies - winning again this time with an integrated circuit for use with video on demand systems in hotels.

Such adaptability is vital for the small and medium sized enterprise sector, which is the driving force of the economy, accounting for 70 per cent of business activity. Innovation has been one

across.

Their survey shows that the experience of doing business in Northern Ireland, in terms of the costs and the quality of the infrastructure, is in practice much better than companies anticipate when they first arrive in the province.

For the short term, the economic outlook remains robust. Consumer demand is

rising, fuelled by rising disposable income, and lower mortgage costs.

New private house starts rose by 4 per cent last year and this growth was carried through to the first quarter of the current year, when new starts were 20 per cent higher than the similar period in 1995.

Bank lending is increasing. The Bank of Ireland

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Hard times: farmers at the Saintfield livestock sales yard, County Down

PROFILE Monika Wulf-Mathies

Europe's healing hand

EU funding, according to the commissioner, has a crucial role to play

Monika Wulf-Mathies, Commissioner for regional policy, clearly believes Europe can make a difference in Northern Ireland.

The former German trade union official, entrusted with distributing a total regional aid budget of Ecu150m (£122.40m), is particularly proud of the Ecu300m earmarked for Northern Ireland's Peace and Reconciliation Initiative.

"This is what the European Union is all about, helping to heal differences and bring communities together," she says. "I think we can draw lessons from this for the use of funding in other areas."

The objective of the programme, which was agreed at the Essen summit in late 1994, was to underpin the paramilitary ceasefires by supporting groups directly affected by the "Troubles" - both the victims and the perpetrators of violence.

The sector has been in slow decline for some years. While there may still be more sheep than people in Northern Ireland, the province's flock dropped by 2 per cent to 2.5m in 1994. The pig sector has seen a consolidation.

The number of holdings is now about 80 per cent of the levels in 1981. Over the same four-year period the average size of pig herd rose by 38 per cent.

Contracting is equally evident in the arable sector, with 20 per cent fewer farms now growing cereals. Similarly, the number of potato holdings is now one third lower than four years ago at 1.80. The dairy herd too has shrunk by 1 per cent to 271,500. Ironically, only the beef herd has managed to maintain its numbers, standing at 273,000 head.

With farm values in many cases exceeding £25,000 an acre, many landowners would be considered millionaires, were it not for heavy burdens of debt to banks and other lending agencies.

Few would want to sell.

But before the BSE crisis is over some may well have to leave the land they inherited from their fathers.

budget committee had voted to cut the programme because of the slow take up of the money by the local organisations.

The Commissioner, clearly incensed at the damage such a decision would have had on the EU's standing in the province, accused the parliament of a "lack of solidarity" with those communities who suffered the most.

"It sent the wrong political message and put at risk the links we're establishing across the divide," she said. "If you want to get people involved they need to have a clear perspective of what is happening." However, the decision was reversed by a full plenary of the parliament on October 24.

Past disagreement between the Commission and the British government over EU funding had emerged, with the Commission accusing London of using EU monies to top up, or worse still replace, existing national programmes.

"We had some problems in the past. But we're happy with the British government is committed to making this money additional [to existing programmes]," says the Commissioner.

British officials were at first a little wary of the programme. The government, which under normal EU arrangements is held responsible if a project goes wrong, wanted to be able to monitor the programme.

A compromise was agreed whereby the government would be a co-signatory of the funding.

At a special conference in Belfast in early 1995, the Commissioner turned a few more heads with her proposal part of the money could go to ex-paramilitary prisoners. She said she wanted to see the funds promote what she called "social inclusion". In



Monika Wulf-Mathies: "I think we can draw lessons from this for the use of funding in other areas"

local councils, business and the voluntary sector, would be invited to submit project ideas.

There have been delays, particularly in agreeing the formation of the new partnerships which are intended to be cross-community. According to Commission figures, only Ecu24m has so far been disbursed of the total EU contribution of Ecu300m - the balance being matched funds from the two governments.

The programme was unique in other respects. Decisions on how to disburse the money were only made after a lengthy consultative process with local groups - another reason for delays.

In a further bid to win over local communities, Brussels commissioned its own study of the deprived areas to establish those in most need.

To get the money to those most affected, the Commissioner decided that only part of the money would be distributed

through government bodies.

Instead, local organisations would be directly targeted, either through so-called "intermediary bodies" such as the Northern Ireland Voluntary Trust, one of the largest recipients. In addition, new "area based partnerships" involving the

John Murray Brown

Agriculture: by Michael Drake

Putting on a brave face

The past six months have left the province's farmers down - but not out

If you are a sheep farmer, a pig producer or a poultry processor in Northern Ireland you may have good reason to smile. But for those involved in red meat production it is a different story. For them, the past six months, which have seen the European Union ban UK beef exports and call for the phased cull of British herds, have been a sort of hell.

Northern Ireland's farmers are the backbone of the province's economy. Farming is by far the largest industry, employing about 60,000 people out of a total workforce of 780,000. Total income from farming, which measures the return to farmers and all members of their families working on farms, last year amounted to about £240m - 8 per cent up on 1994.

The beef sector, which represents 12 per cent of the entire UK herd, accounts for two thirds of gross farm output. Unlike the rest of the UK, which consumes all but a fraction of its production, the province relies on exports for 80 per cent of output. Northern Ireland is thus uniquely vulnerable to the crisis.

First Trust Bank estimates the lost revenues resulting from the enforced cull at

about £100m. The knock-on effects could be considerable: investment in plant and machinery is slowing down; cattle haulage companies are feeling the pinch.

Cattle prices are down 25 per cent on this time last year and some farmers report losses of £150 to £200 an animal on the livestock they have managed to sell.

While a year ago farmers were receiving 230p a kilogram for top-quality steers, they now have to be content with a return of about 180p a kg. Those who depended on the normally lucrative suckler autumn calf market have had to bite the bullet and take prices that are on average £100 lower.

Without the safety net of the European Union's system of intervention prices, producers would undoubtedly have gone to the wall.

Even at the gloomiest times, however, there are some who remain optimistic. "If we can get a certified herd scheme in place and it is allowed to meet the timetable for the cull of animals, we can get the market open again in Europe," says Greer McCollum, the beef farmer who heads the Ulster Farmers' Union.

"That would provide some stability but we would have to accept lower prices than those we were receiving before the BSE bombshell," he says.

Least affected have probably been the farms that have diversified. Sheep prices are much higher than at this

time last year, thanks to an increased demand for lamb. White meat producers such as pig farmers and chicken processors have benefited as consumers switch from beef.

Government aid in recent months is another factor in farmers' favour. Of the £30m allocated to the UK slaughter industry, 23.7m has gone to the aid of Ulster farmers with another £10m or so helping renderers process animal waste at the

It is too early to anticipate structural changes in the industry as a result of the mad cow crisis

rates that prevailed before the crisis.

Support under a marketing scheme has provided the province's farmers with £4.6m, while another £15.3m has been paid in supplements to the Beef Special Premium and Suckler Cow Premium Schemes. Others have benefited to the tune of £12m under the Hill Livestock Compensation Allowance scheme.

It is too early to anticipate structural changes in the industry as a result of the mad cow crisis. The number of active farms - at just under 24,000 - represents a

small 2 per cent drop on last year.

Unlike other parts of the UK where many farms are held under tenancy agreements almost 60 per cent of farms in Northern Ireland are family owned or, in a few cases, subject to long-term leases.

The sector has been in slow decline for some years. While there may still be more sheep than people in Northern Ireland, the province's flock dropped by 2 per cent to 2.5m in 1994. The pig sector has seen a consolidation.

The number of holdings is now about 80 per cent of the levels in 1981. Over the same four-year period the average size of pig herd rose by 38 per cent.

Contracting is equally evident in the arable sector, with 20 per cent fewer farms now growing cereals. Similarly, the number of potato holdings is now one third lower than four years ago at 1.80. The dairy herd too has shrunk by 1 per cent to 271,500. Ironically, only the beef herd has managed to maintain its numbers, standing at 273,000 head.

With farm values in many cases exceeding £25,000 an acre, many landowners would be considered millionaires, were it not for heavy burdens of debt to banks and other lending agencies.

Few would want to sell.

But before the BSE crisis is over some may well have to leave the land they inherited from their fathers.

Laganside: by John Murray Brown

The second act begins

The corporation's new chairman is expected to focus on investment and job creation

Laganside Corporation is to have a new chairman. Tony Hopkins, senior partner of Deloitte & Touche Northern Ireland, is to succeed the Duke of Abercorn as the head of Belfast's £130m river-side development project.

The appointment, expected to be announced in the next few days, opens a new chapter in the story of the regeneration of Belfast's inner city. If the Duke of Abercorn was the catalyst in winning government backing during the project's formative years, Mr Hopkins sees his main task as promoting private sector investment and bringing jobs to the area.

Belfast's docklands once

boasted the world's largest rope-making factory and one of the largest shipyards, while Northern Ireland was the heart of the UK linen industry. The area has long since been abandoned by traditional industry. Today, like many old European cities, Belfast is striving to reinvent itself.

Under an order in council in 1988 establishing it as an urban development agency, Laganside was designated 140 acres abutting a tidal river, comprising sites ranging from disused docklands to the redundant and contaminated area of the old city gas works. "I remember when it was an open air cattle market," says Mr Hopkins of the area where the Hilton Group is building a 229m 180-room luxury hotel.

The locations are now owned either by Belfast City Council, the Harbour Commissioners, or the Corpora-

tion itself. To date, the scheme has been supported by £70m in grants from the Treasury or under European funding programmes. In such blighted surroundings, there was an official recognition that the project would be infrastructure-led, as the authorities cleared the site before marketing the investment.

But as the physical infrastructure improves, the planners are turning their minds not just to the commercial exploitation of the site but to local community regeneration through residential housing schemes and the integration of the area with the city centre.

In its annual report for 1995-96, the Duke of Abercorn says the highlight of the year was the "demand and subsequent increase in the value of waterfront housing" - all of which will help to breathe life back into the area.

When the project was launched, one of the first tasks was the construction of a weir across the Lagan. The weir, which cost £1m, was designed to regulate the tides, avoiding flooding in winter and the summer dry spells which affected water quality. It also meant the unsightly mudflats became a thing of the past. "There used to be a time when you could race at high tide, but then when the tide went out, there was only room for one boat," says Mr Hopkins.

Sewerage pollution on the river was also a hazard, with the system overflowing into storm drains during bad weather. Today the corporation has introduced a method of screening the sewage outfalls. The long-term plan is to improve the city's entire sewage system.

The water probably would still not be clean enough for swimming but already salmon have been caught

above the weir. The corporation dredged 100,000 tonnes of silt, creating a potential recreational area 4.5km long. Garsian were delighted. The Lagan Lookout group now conducts tours for school children and others around what was once one of the city's blackspots.

George Mackey, Laganside's chief executive estimates there is an opportunity for £500m of private sector investment, and "the potential for much more in the future".

The first big break occurred when Ewart, the main developer, agreed terms with the Hilton group. The Hilton, due to open in the summer of 1998, is also to receive a £7m government grant. Ladbrooke, the leisure group which owns Hilton's operations in the UK, has underlined its confidence in the project by taking a large equity stake in the development. Typically Hilton's interest would be by way of a management contract, says Mr Hopkins. Also on Lanyon Place is BT which is leasing 150,000 sq ft of office space in which to relocate all its Northern Ireland operations.

At the other sites, the Clarendon Docks reports record office lettings. Clients include the Northern Ireland Council for Curriculum Examinations and Assessment which is locating a 50,000 sq ft centre. Earlier this year, the city council was awarded £2m by the National Lottery for the restoration of the 19th century St George's Market, one of the UK's largest fruit markets under a single roof.

The showpiece is the Waterfront Hall a 2,335 seat concert and conference centre. Belfast City Council, the £20m facility's owner, plans to open it in the new year with a concert programme headed by James Galway, the Ulster-born flautist.

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4 NORTHERN IRELAND

■ Armagh: by Joris Minne

Across the religious divide

Co-operation between churches has helped the city stay aloof from the troubles

When Bishop Sean Brady takes over the helm of the Roman Catholic Church in Ireland from Cardinal Cahal Daly later this year, he will be the latest in a line which goes back some 1,500 years to St Patrick himself.

Ireland's patron saint has a special place in the country's identity. The church he founded in the city of Armagh is now the ecclesiastical capital of Ireland.

Each March, across the world an estimated 40m of the Irish diaspora remember the holy man, who banished snakes from the island, reinforcing their own identity in much the same way as the British Royal family does for the British state.

While American Irish tend to fete St Patrick with green beer and colourful city centre parades, home grown Irish revere him with more

solemnity marking the saint's day on March 17 with masses, services and visits to the graves of deceased cardinals.

Whatever way he is remembered he is almost certainly the world's best known Irishman.

Armagh is just 40 minutes drive south west of Belfast - the department of environment alerts the errant driver with large road signs depicting in silhouette the twin spires of the aptly named "Cathedral City".

On the drumlin hills of this elegant Georgian town, the Roman Catholic and the Church of Ireland cathedrals tower over the pink stone streets. Both are named after St Patrick, which confuses tourists a little. They normally end up visiting both churches and in so doing cross the religious divide.

Cardinal Brady and his Church of Ireland counterpart Bishop Robin Eames are not alone. Baptists, Presbyterians and Methodists all have meeting halls and places of worship in the city. Even the Reverend Ian Paisley



"Cathedral City": Armagh's two churches are named after St Patrick, which confuses tourists who normally end up visiting them both

MP who heads his own Free Presbyterian congregation, has established a church in the town.

Thanks in large part to the co-operation between these various church organisations, Armagh has survived much of the turbulence of Northern Ireland's recent history.

To some extent the leaders of today's churches are following St Patrick in showing acute political acumen. Mr Paisley may have claimed Patrick as a "Brit" but the saint himself was more sensitive to local tradition when

he established his church in the year 450.

By the time he arrived, Armagh was the heart of an old and declining Celtic empire populated by princes, queens, warriors and druids - a sort of Ulster Camelot. By one account, St Patrick was given the land to build his church after he rescued the local chieftain's dying horse.

Today, the city has developed alternative attractions. The Royal Irish Fusiliers have their regimental museum in the town. Navan Fort, the site of the ancient

capital of Ulster has also been restored.

The town was the one of principal sites of the Irish scientific enlightenment, with the Armagh Observatory built in 1790, by the then Church of Ireland prelate Richard Robinson.

Today the city boasts the only planetarium outside London's Baker Street.

But the main draw for the tourist is the city's connection with St Patrick. The surrounding countryside is dotted with landmarks commemorating events in the saint's life.

Near Keady, 10 miles south of the city is a hill called St Patrick's Chair, where he is said to have rested from the weary work of converting proud Celts into meek Christians.

Many would have been baptised at the nearby St Patrick's well at Mullacreevy, on the outskirts of the town. Here St Patrick is said to have fallen asleep, dreaming that an angel told him that his church was to be the centre of Christianity in all of Ireland.

Patrick was not the only man attracted to this site. In earlier times, the well, and the raglin tree nearby was a focus for pagan worship.

Today people in Armagh still remember the tradition of tying rags to the tree, in the belief that this was the way that wishes and dreams would be realised. Such is the continuing potency of the site to local people that plans to build a housing development had to be altered to preserve the tree.

In Blackwater town, five miles from the city in the middle of County Armagh, St Patrick's has left a rather different legacy. Driving through this lush farmland, famous for its apple orchards, you enter the village from the west past the church of St Jarlath.

Seamus Hegarty, the village news agent and local historian says: "We know it is Clonfane. Feach is the Irish word for a tooth." The story goes that St Patrick was picnicking in the nearby field when he bit into a piece of bread, and lost a tooth. Locals say the holy molar is still there somewhere and anyone who finds it stands a good chance of sainthood himself.

PROFILE

John McGuckian

An enterprise veteran

The image of Northern Ireland as a world of government quangos, run by mandarin appointees comes a unstuck when you meet John B. McGuckian. A former North Antrim pig farmer, and a Roman Catholic, his career reads like a Who's Who of Northern Ireland enterprise.

Mr McGuckian has seen, and lived through, even prospered, during the worst of the 25 years of terrorist violence. As a result, he has an almost unrivalled business perspective on the province.

"This place is light years ahead of where it was five years ago, 10 years ago. You can't imagine the murder and mayhem of those

years," he says, in his blunt Ulster brogue.

He is best known outside the province as chairman of the government run Industrial Development Board, although he has interests in textiles, is on the board of Allied Irish Banks, is chairman of Ulster Television, the local ITV franchise and has a string of public service appointments.

This week the IDB published its annual report for 1995-96. The results underscore the big rise in job creation by foreign investors, much of the growth coming from those already in the province.

Mr McGuckian points out that any foreign investor coming to Northern Ireland has to

convince the IDB it is "mobile" and that its business would be viable even without the government grants.

On this point, he is bitter about the demise of the deal with Hualon, the Taiwanese textile company, whose planned textile plant would have been the largest ever investment in Northern Ireland but is the subject of a challenge in the European Court.

Mr McGuckian describes as " vindictive" the lobbying by the British textile industry against the investment. Manufacturers claim the Hualon project represents unfair competition.

John Murray Brown

■ Tele-services: by John Murray Brown

Engaged in a new line of business

With some success, the IDB is targeting call centres as an area of rapid growth

If you have ever had reason to ring British Telecommunications' 185 or 181 London freephone service you know the sweet burr of a county Fermanagh accent.

For the garrison town of Enniskillen in the heart of Northern Ireland's "Lake-land" is now the location from which BT provides customer services and fault reporting for the whole of the London area.

This is just one example of the remote location of call centres made possible by changes in information technology.

The shift in work patterns is particularly marked in rural areas - one of BT's employees for example travels to work by boat. But the changes are equally likely in urban settings.

Across Europe an estimated 6,000 companies operate call centres. These already employ about 130,000 people and are expected to create another 100,000 jobs by the year 2000 according to a Green Paper published by the European Commission last month.

The Republic of Ireland is the fastest growing area for call centres, but the UK has 4,000, earning revenues of £450m (£367.20m) in 1996, according to Commission figures. Northern Ireland is targeting these tele-based services as a potential growth area - and with some success.

According to the Industrial Development Board, the government's investment authority, 1,530 people are employed in private sector call centres as well as a further 1,630 in the public sector, offering UK-wide or pan-European services in everything from airline bookings and computer support to direct banking.

The IDB is co-operating with BT, through investment in new technology and

the provision of low tariffs in a bid to attract call centres to the province. The company employs 550 people in centres in Enniskillen, Portadown, Londonderry and Belfast servicing customers primarily in Britain.

Celinet, British Airways, Royal Mail, Prudential Assurance and Abbey National are some of the larger companies involved, along with government departments such as the Customs and Excise, the Inland Revenue, the Post Office, and the Child Support Agency.

"There is no reason why Belfast cannot quadruple the number of jobs in remote IT," says Tony Hopkins, the incoming chairman of the Leganside Corporation, the agency in charge of the regeneration of Belfast's riverside.

The IDB offers incentives, including grants of up to 50 per cent of the cost of buildings and telecommunications infrastructure.

Employment grants are also available to help cover the heavy staffing overheads that are involved in such a labour intensive operation.

Over the past five years, BT has invested some £176m in establishing high bandwidth links to Great Britain and the Republic of Ireland and the installation of a fibre optic cable network.

The company now claims to offer one of the most competitive call centre packages in Europe, naming among its advantages a flexible discount structure calculated on call volumes for incoming and outgoing calls; up to two international freephone numbers per country free of rental charges from a current choice of 46 countries and; special rates for long-term contracts with up to 25 per cent discounts on the base rates for relevant countries on freephone services.

With some predicting the advent of the "cashless society", Northern Ireland seems well placed to take advantage of the changes.

Bruce Robinson, chief executive of the IDB says



Remote working companies involved include Celinet, British Airways, Royal Mail, Prudential Assurance and Abbey National.

call centres are one of the fastest growing sectors. Dr Ivor McCaw, manager of BT's Belfast engineering centre says BT's local operation has already helped pioneer major new product innovations such as BT's per-second pricing of phone calls.

One of the more recent

arrivals to the province is Stream International. One of the more recent arrivals to the province is Stream International.

arrivals to Northern Ireland is Stream International, which has established its European headquarters in Londonderry. Stream was formed as a merger between Corporate Software and a subsidiary of RR Donnelly of Chicago, and is now the world's largest supplier of telephone-based technical support for the computer software industry, with annual sales of some \$1.5bn.

The company made and distributed software and

technical manuals for Microsoft Windows 95 program.

In all, the company has 2,500 specialists handling 12m support calls in the European Union and the US.

Paul Kavanagh, president of Stream's international operations in Europe, the Middle East and Africa says the availability of high-quality, low-cost labour was a key attraction. The company wanted applicants with a good working knowledge of DOS and Windows programs. Those with a university or college degree were preferred.

Sean McGarry, of the Training and Employment Agency says Stream had little difficulty filling the 500 places. One reason, he says, is that Northern Ireland is now spending more of its educational budget on computer training than any other UK region.

Stream was able to hire its first 30 customer support representatives within one week of making the decision to come to the province.

Says Mr Kavanagh: "We interviewed them on a Wednesday and by Sunday evening our first 30 employees boarded a plane to London for company training."

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■ The economy: by Gordon Cramb

Emu targets pose very few problems

Government debt is the only Emu criterion which the Netherlands fails to meet

The Dutch version of the current Ikea stores group catalogue guarantees its prices until August 1997. Consumers looking for a home to fill with such wares can get a mortgage from ABN Amro fixed for 17 years at a modest 7.7 per cent annual interest. Inflation holds few fears for those doing business in the Netherlands.

It is one of the criteria for participation in European monetary union which the country has found easiest to meet. One or two others have been more troublesome, but the reaction among analysts to the government's annual budget unveiled last month was unanimous in deducing that the guilder will be among the founder members of the single currency zone.

The government deficit is to be brought down to 2.2 per cent of gross domestic product next year, well inside the Emu target ceiling of 3 per cent. In 1995, the deficit ratio still breached those limits at 4 per cent, but the outturn for this year is projected at 2.6 per cent.

The only measure on which the Netherlands still fails to qualify is government debt. Mr Gerrit Zalm, finance minister, forecast this to emerge in 1997 - the year on which Emu eligibility will be assessed - at 7.8 per cent of GDP. This would still be way above the notional 60 per cent maximum embodied in the Maastricht rules on monetary union.

But The Hague is hoping

that progress from the 7.7 per cent recorded last year will be sufficient to establish the "clear downward trend" required as a fallback position for countries which otherwise fit the bill.

Even so, to achieve the reduction the government had to resort to some debt financial engineering. Mechanisms such as moving funds around in the state's accounts with the central bank brought nearly half the cut in debt from an expected 7.8 per cent this year. The rest came from economic growth itself as well as curbs in government spending and official subsidies, increased public sector efficiency, and a move into surplus on state social insurance funds.

GDP growth is on course to reach 2.5 per cent this year and 2.7 per cent in 1997. That is in spite of a less steady growth pattern in Germany, which takes a quarter of all Dutch exports and whose sneezes have in the past given its neighbour regular cause to blame for its colds. This time, as Dutch growth outpaces that of Germany for a fourth successive year, there is barely a sniff.

In any event, the Netherlands' exposure to the German market is muted by the preponderance of agricultural produce in the export package it ships across its eastern border. Germans will always eat.

Worse, though, is when a slowdown in Germany coincides with a dull patch for world trade in general. So by the same token, the internationally geared Dutch business sector is well placed to reap the benefits of the increased activity forecast by the World Trade Organisation as the Geneva regime achieves a lowering of tariffs and other barriers over the

next few years. But for now, the economy is being supported by strong domestic trading patterns. In retail sales, for example, the year-on-year increase touched 7.1 per cent in August - consumer price rises are at the same time being contained to an annual 2 per cent.

Overall household spending is being given an apparently structural boost from a rise in employment - by one forecast, the 300,000 new jobs at least 12 hours a week being created between 1995 and 1997 will expand labour demand by 5.4 per cent.

The Netherlands is gradually making up lost ground in a number of areas," says Mr Nico Klae, ABN Amro economist. This year, for the first time in decades, the total number receiving state benefits will show a decline, he notes. "The central government financing deficit, the public sector expenditure ratio and the tax and premium burden have all returned to mid-1970s levels."

That was when the country's bountiful welfare system began to inflict macroeconomic scars in the mid-1970s. It left as a legacy a low labour participation rate - more than 10 per cent of those of working age are, for a start, classified as "severely disabled". Suffering from stress was often reason enough to be allowed to leave a job and draw up to 70 per cent of one's former salary until pension day.

Now each of those drawing benefit under the WAO, the Dutch acronym for the invalidity insurance law, is having his or her case reviewed by state-appointed doctors. Of those examined last year, 35 per cent had their payments withdrawn or reduced. This, combined with a



Gerrit Zalm: high debt forecast

smaller intake of new cases, again because of tighter criteria, has brought the number of "benefit years" being paid under the WAO by nearly 6 per cent to 742,400, according to figures this month from the Social Affairs Ministry.

The labour participation rate, substantially above 60 per cent in the past few years, compares favourably with a level of barely 55 per cent a decade ago, but still does not look good against a rate of nearly 80 per cent for Denmark, for example, and well over 70 per cent in both Britain and the US.

One consequence of this has been a per capita GDP which, although rising faster than its neighbours for the past eight years, still lags behind a swathe of countries ranging from France to Austria. At the same time, those in work bore a proportionately higher tax and insurance burden, as did their employers. Jobs were destroyed as a result.

In a study called "Benchmarking the Netherlands", the Economic Affairs Ministry last year measured the country against selected main competitors. Days lost through strikes were lower than anywhere except Japan. Reflecting high levels of education and workplace technology, the country ranked first in labour productivity, though at the low end of the scale when it came to use of labour potential.

Dutch trade unions are as prickly as any when jobs are threatened, and the country's social contract means that employers must tiptoe, consult, and sometimes shuffle backwards again. But in the past few years the union federations have leaned more towards non-pay benefits for their members, as a result of which many workers in the public and private sectors will be on a 38-hour week from next year.

Which, if nothing else, gives them more time to spend at Ikea.

The country's bountiful welfare system began to inflict macroeconomic scars in the mid-1970s. *Read Times*

■ The stock market: by David Brown

Strategy for a single entity

Amsterdam is defending its position as an international centre

The councils of the Amsterdam Stock Exchange and the Amsterdam-based European Options Exchange (EOE) have punched the "execute" button on a strategic programme to merge into a single operating entity.

The plan is aimed at defending Amsterdam's position as an international financial centre at a time when competition between Europe's capital markets is growing ever more intense.

Provided that details of the plan can be agreed and finalised by members this year, particularly the division of rights and responsibilities under the new regime, then both exchanges will be folded into a new public limited company, Amsterdam Exchanges (AEX), at the start of 1997.

The overall aim of the AEX is to attain better economies of scale and - as one bourse spokesman phrases it - to create "a one-stop shop" for trading in Amsterdam.

Within the new structure, a number of functions associated with clearing, settlement, plus management of the crucial information delivery and exchange systems, will be carried out by independent operating companies under the AEX umbrella. The AEX will also assume day-to-day market oversight.

The membership of the Stock Exchange Association, traditionally dominated by the oligopoly of big Dutch banks, together with that of the EOE, will each divide 25 per cent shareholding stakes in the new company, while the remaining 50 per cent of the shares will be offered to

corporate and institutional investors. In the process, AEX will become Europe's first listed exchange.

Amsterdam's merger initiative is one of several unfolding developments. The illiquid, unlisted Dutch securities market is also to be revamped in response to similar steps undertaken in London (in the form of the Alternative Investment Market), Paris (the Nouveau Marché), and Frankfurt (with its Neue Markt).

The aim is to attract more start-ups on to a new exchange, generate more liquidity, and to bring the local market under Amsterdam's supervisory regime. There is also an effort to co-ordinate information exchange among all of these new markets across Europe.

The operating principle is that remote trades, while encouraged, should be effected and settled in the country in which the start-ups have their listed base.

The Stock Exchange has also introduced a new settlement system to insure that delivery of securities takes place at the same time as the corresponding cash payment - which promises to lower potential settlement risks - while the Options Exchange has had its teething problems with a costly new trading system known as "Switch" that was originally designed to support simultaneous dealings on and off the floor itself.

Already installed, it is now undergoing a substantial reconfiguration.

Whips of the re-organisation wind that has been sweeping at the surface of Amsterdam's markets are only now starting to penetrate the antechambers of actual power. Corporate governance in the Netherlands remains a highly cartelised affair. However, this is now recognised as an issue that ought, perhaps, to

be addressed. The Stock Exchange, in co-operation with the Dutch Association of Stock Exchange Listed Companies, last summer launched a study aimed at defining best practices for company directors and supervisory boards. A report is expected at the end of this month.

The Dutch government has meanwhile proposed a wide-ranging package of anti-cartel measures aimed at opening the economy as a whole - one of which concerns the crucial issue of anti-takeover defences.

The Netherlands retains some of the strictest formal and informal anti-takeover defences in Europe. Despite pressures to partly unwrap this thick and impregnable swaddle and render management more accountable to shareholders - a compromise plan now awaits political disposition - speculation of the Anglo-Saxon kind remains a foreign phenomenon.

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INTERVIEW Wim Duisenberg

EMI helmsman



competitiveness and try to adjust through a devaluation, it will inevitably accelerate your domestic inflation. It's a one-to-one ratio - there thus happens to be a time lag built in."

It is now evident that some countries will qualify for Emu membership before others. This will produce transitional dilemmas of some delicacy. However, Mr Duisenberg rejects any hint that current disagreements over the competitive terms and conditions of access to Emu's Target system

- specifically access to intraday liquidity from the European Central Bank - are symptomatic of a wider emerging tension between the emerging Emu "ins" and its "outs".

"This is primarily a technical issue. It has political and commercial overtones, to be sure, but I'm not sure how important they will really prove to be. Perhaps some commercial banks will independently decide to transfer their central treasuries and definitely place themselves inside the single-currency area," he suggests.

David Brown

If Mr Wim Duisenberg takes a bullish stance on the common European currency, it comes as little surprise in light of his move to Frankfurt as chairman of the European Monetary Institute (EMI) in July 1997. More notable is the explicit assertion by the Netherlands' outgoing central bank governor that there will be a direct relationship between success in the currency convergence exercise and economic growth with resulting new jobs.

"A stable exchange rate regime can only improve the effective functioning of markets, thus brighten the European prognosis, and improve its capacity to generate new jobs," Mr Duisenberg says. For European policymakers

- struggling to escape the constraints unleashed by increasingly unpopular austerity programmes, which the Maastricht convergence criteria mandate - this comes as a notable notion indeed.

"The move towards Emu [economic and monetary union] has inspired governments to take necessary steps to improve the functioning of the labour market and reduce their role in the economy overall," Mr Duisenberg notes. "This will naturally help fight the unemployment problem - although it will perhaps do so more as a catalyst than as a fundamental factor on its own."

Head of the Dutch central bank since 1982, and also president of the Basle-based Bank for International Settlements (BIS), Mr Duisenberg observes that the Netherlands has

"moved from a deficit that stood close to 10 per cent of

GDP in the early 1980s to one of under 3 per cent this year. And precisely during this 10-year period, employment growth was faster than at any time in our post-war years. We have seen strong economic growth and a parallel increase in the flexibility of our labour market as well."

While growth in many

countries has been accompanied by a widening of imbalances in how its proceeds are distributed, this has been moderated in the Netherlands by the country's social cohesion.

Mr Duisenberg has been widely tipped as the first head of the European central bank, scheduled to supersede the EMI in 1998. Meanwhile, even at the helm of the EMI, he will rank among the most influential of Europe's economic decision makers.

He is a strong supporter of German-style monetary policies, and has sided with Bonn in its insistence that strict limits on budget deficits must be maintained after monetary union begins. This reflects the Netherlands' interest in maintaining its close association with the D-Mark sphere, to which the Dutch guilder has been bound for 15 years through a policy of virtually identical interest rates.

Yet small, highly trade-oriented, and hard currency economies like the Netherlands will not be able to enjoy Maastricht's benefits, Mr Duisenberg maintains - even if not all countries will qualify to join Emu simultaneously.

"The certainty of fixed exchange rates and the security that this will bring to entrepreneurs will be particularly pronounced for Holland, but all European

economies are dependent on each other for more than half their trade," he says.

Mr Duisenberg brushes aside the concern expressed by a growing number of Emu critics - both within Europe and the US - that the currency exercise is profoundly ill-timed.

Mr Rudi Dornbusch of MIT, one of the more forthright among these pessimists, suggested in the October issue of Foreign Affairs that "experimenting with new money is a bad idea at a time when Europe must face the tough realities of abolishing the welfare state, reintegrating millions of unemployed into a normal working life, deregulating statist-corporatist economies, cultivating the supply side of its economy, and integrating Central Europe."

Mr Duisenberg dismisses the implied link between structural adjustments now being undertaken to bolster a strong single-currency regime and Europe's high rates of unemployment.

"These have everything to do with the rigidities of the labour market," he maintains. "In my view, Europe's prolonged economic dip reflects structural rather than cyclical factors."

Other sceptics have suggested that if exchange rates drop out of the economic equation, wages and prices will be left to take up the slack.

"I don't see this as a terribly serious concern. After all, are exchange rates a factor between northern and southern Italy? Or, for that matter, between England, Scotland and Wales? Of course not. One shouldn't overestimate their effectiveness. If you lose

The Netherlands offers an unrivalled distribution network

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4 THE NETHERLANDS

■ Transport infrastructure: by Gordon Cramb

Coalition gives the go-ahead

Public-private partnerships are tackling infrastructural needs

Several big infrastructural projects in the Netherlands have recently gained political endorsement after years of prevarication:

A high-speed passenger rail line from Amsterdam south to Paris, connecting with the Channel tunnel, and another fast train link east to Cologne. An all-freight track serving Rühr industry, from a Rotterdam harbour doubled in container capacity. An airport able at peak hours to handle the most flights in Europe.

"It has a lot to do with the new government combination," says Mr Hans van Dord, managing director of Heidemij Advies, part of the country's biggest engineering consultancy. "The inertia is gone - there is the trust and the determination to do something about these big problems in infrastructure."

The ruling coalition of social democrats, reformists and free-market economists brought together two years ago has managed to forge surprising unanimity on what needs to be done to make the Netherlands work. For the left this means creating jobs; for the right it signals business opportunities.

This consensus stretches into the opposition ranks as well: out of 150 members of parliament in The Hague, only about 10 voted against a proposed fifth runway at Amsterdam's Schiphol airport. The case for the runway rests, unusually, on a reduction in noise. Locating it in a less populated area will mean that only 10,000 homes will fall within the most affected zone, compared with 17,000 at present. At the same time, it will provide Schiphol with the ability to treble cargo capacity

to 3m tonnes a year, and handle 120 aircraft movements an hour - more than any competing facility in Europe.

This is of crucial importance to a hub airport for which as many as 38 per cent of its passengers are merely passing through.

More than 25m passengers used Schiphol last year, up 7.6 per cent, and the government has imposed a ceiling of 41m which should be reached soon after 2005.

By then, some 5m should be arriving or departing by high-speed train. London would be four hours' rail journey away; Paris and Frankfurt three hours. "We don't regard this as a threat," says Mr Ruud Wever, an airport official.

"Considering the other limits imposed on us... it enables more optimal use of our capacity to serve bigger aircraft for other destinations."

Nearly two-thirds of domestic and international freight is conveyed by road

From Amsterdam to London via Brussels and the Channel tunnel is currently a seven-hour trip. A new track is to be built to Antwerp, its route agreed by the cabinet after wrangles with the Belgian authorities on cost and with Dutch interest groups on environmental and commercial considerations.

Unless overturned by parliament it will not, to the displeasure of The Hague municipality, call at the country's seat of government. Instead, it was proposed that the line cut

directly through the so-called "green heart" within the conurbation which encircles Amsterdam, The Hague, Rotterdam and Utrecht. To appease environmentalists, an 8km tunnel would shield it from view.

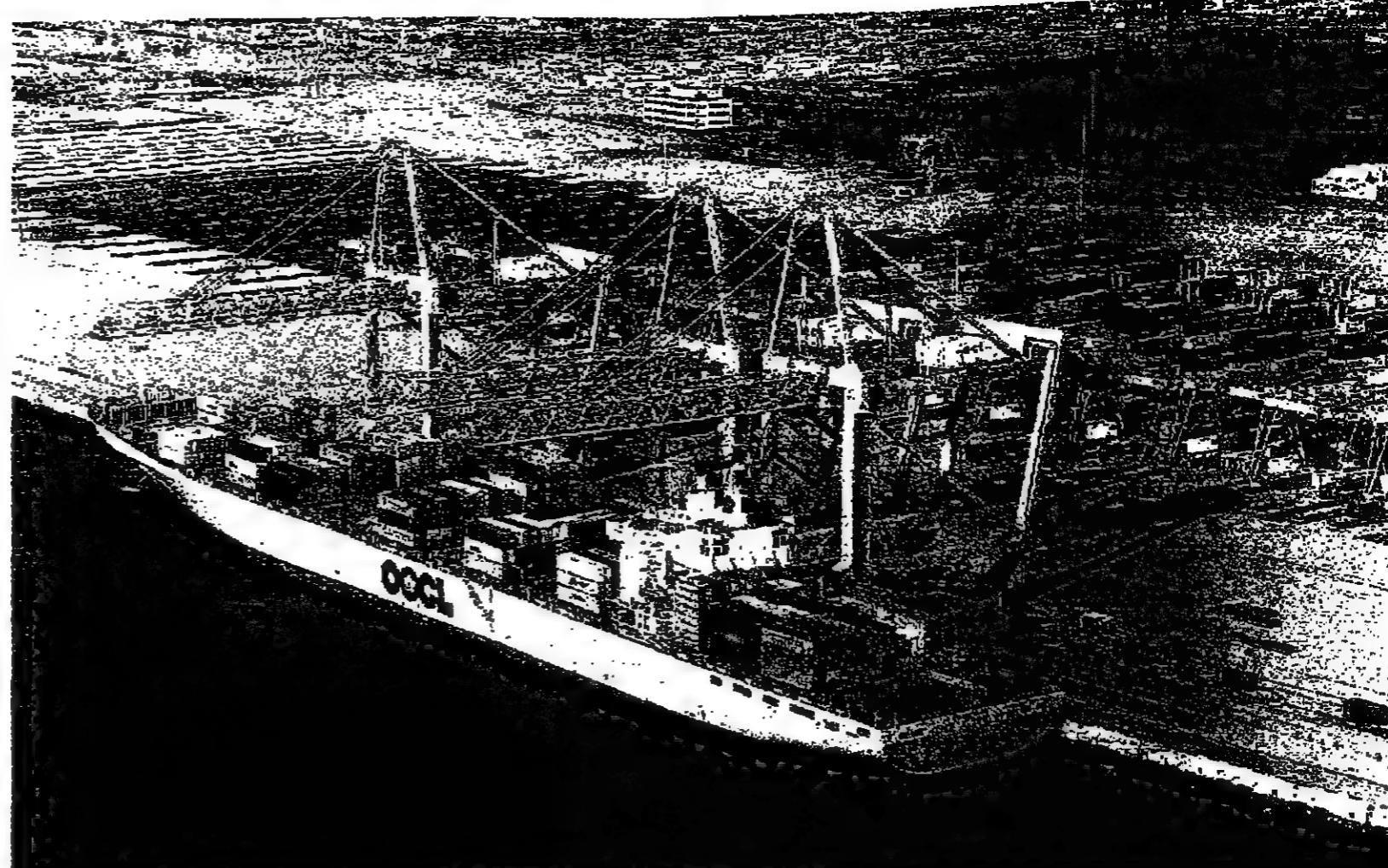
At Fl 7.5bn, it approaches in cost the other most expensive project: the Betuwe line, which will connect Rotterdam port with the German industrial heartland. It will reinforce the position of what has long been the shipment point of choice for many Rühr products, to the chagrin of Germany's own ports such as Hamburg and Bremen.

Most of the traffic now goes by road. Nearly two-thirds of domestic and international freight is conveyed along by the country's increasingly congested highway system. While another third is water-borne, rail takes only 2.5 per cent.

This month, Mrs Annetje Jorritsma, transport minister, announced the establishment of a consortium grouping government and industry. To be called ITS Netherlands, its aim is to develop logistical solutions for passenger, goods and information traffic. This follows her allocation of Fl2bn over the next four years "to direct freight transport into the right channels" and alleviate congestion.

As elsewhere, public-private partnerships are being used increasingly to tackle demanding infrastructural needs. A Fl 2.2bn investment programme has linked the Rotterdam city authorities with Europe Combined Terminals (ECT), a stevedoring operation which groups international shipping enterprises.

Its centrepiece is the Delta Dedicated East (DDE) terminal, a highly automated facility which had its official opening last month. Employing only 100 people full-time, it handles upwards of 100



The new Delta Dedicated East terminal in Rotterdam was officially opened last month. Employing only 100 people full-time, it handles upwards of 100 containers an hour.

containers an hour. Mr Wouter den Dulk, ECT chairman, sees scope within the harbour and environs for nearly a quarter century more of container development.

According to Transport

Ministry projections, the port as a whole could be shifting 6m to 7m containers a year by 2020 compared with 3m currently. This is important in maintaining the position of a commercial harbour - still the world's largest - which directly and indirectly provides nearly 40 per cent of jobs in the greater Rotterdam area.

Amsterdam port, a sixth of the size, can nonetheless claim that its presence creates 40,000 jobs; nearly as many as Schiphol. Nissan ships hundreds of thousands of cars a year from there as far as Italy, and it handles the world's largest cocaine trade. The Greek-owned Ceres stevedoring group would like to develop a container terminal. Only the biggest bulk carriers cannot

negotiate its waters.

"These two characteristics

- a fragile, densely-populated land having to cope

with huge additional traffic

nows to make a living - explain the extraordinary

attention given to infrastructure issues in the Netherlands," says the Rotterdam-based European Centre for Infrastructure Studies.

Problems arise because it

is "common practice to seek

consensus even at the cost of slow planning." And while the Betuwe line and the two high-speed passenger train projects have the weight of European commitments and local demands to relieve congestion, "it warns

works, "Dutch infrastructure policy will face major problems over the coming years - caught between honouring European commitments and local demands to relieve congestion," it warns.

■ Transport and communications deals: by Gordon Cramb

Gust of merger activity

Deals are likely to continue emerging as the transport sector is rationalised

Couriers of TNT, the Australian transport and express delivery group, are likely to have been kept busy in the past few months, shuttling corporate documents from the Netherlands to the furthest reaches of the world. A gust of cross-border merger activity has surrounded the Dutch transport, distribution and communications industries.

Destinations for that paperwork have included TNT's own head office in Sydney. KPN, the privatised Dutch posts and telecoms utility, last month launched a Fl2.7bn friendly bid for the Australian parcels group.

In what at times has felt like a sector reinventing itself, three main trends can be discerned. First, the country's expertise in modern logistical services is proving highly exportable. Boards of quoted public companies in other western markets have in a number of cases been happy to recommend take-over bids made by Dutch-based rivals.

Second, in older-style, capital-intensive service businesses such as maritime shipping, international alliances are needed to meet competitive pressures.

Third, manufacturing of transport equipment is not something that a stand-alone company can any longer readily undertake, if it has to pay the Netherlands' relatively high wages. Such producers will go into foreign ownership, or go under. Sometimes both. And the order varies.

So Fokker's remaining few hundred workers waited to hear on what terms Samsung of South Korea might be prepared to rescue the aircraft maker from bankruptcy. Daf Trucks this month accepted a Fl933m offer from Paccar of the US.

Daf, itself bailed out by the government from receivership 3½ years earlier, said the sale of the company offered "a broad array of opportunities which we could not realise independently." It sought to reassure its 5,000 staff by saying that while this allowed shared technology and sourcing, the business would continue as it was. But local commentators were sceptical.

Job cuts were clearly visible on the horizon as the Rotterdam-based Nedlloyd and P&O of the UK in September agreed to combine their container shipping activities into the world's largest such operator. They went on to agree the purchase by the British company of Nedlloyd's half share in their North Sea ferry services, run jointly for the past 15 years.

On cross-Channel passenger routes, the reshuffle will help P&O address the challenge of high-speed rail and airline price cutting. The combined container unit



Fokker was already under foreign control Lydia van der Meij

aims to pare costs and reap economies of scale in what is a low margin business.

At the same time, more of the world's traffic in bulk freight came under Dutch control as a result of the Fl523m agreed purchase by Pahkoed of Univar, the biggest North American distributor of chemicals. Pahkoed, as a result, became world leader in that sector, and is already adding further storage capacity in the US. Van Ommen, Pahkoed's chief domestic rival in the bulk storage business, this month said it wanted soon to expand its shipping side through a partnership or takeover.

Nothing in the freight business could be further removed from bulk chemicals and overnight courier and parcel services. The bid for TNT by KPN highlighted not only Dutch ambitions in the sector but also how entrepreneurial a utility can become only two years after privatisation. Standard & Poor's, the US credit rating agency, said the deal gave KPN "a strategic opportunity to create a leading European-based time-sensitive freight business."

The KPN telecoms division has been spending the year collecting stakes in operators from Ireland to Indonesia.

It is on a shortlist to become the partner which Telkom of South Africa needs to help it meet demand from black townships.

KPN's expansion is needed to offset lower domestic revenues after its monopoly on fixed-line phone services

within the Netherlands expires next July. Cable television operators and regional energy companies are among those which are to be awarded licences by the end of the year - as is BT of the UK in a joint venture with NS Telecom, an offshoot of the state-owned railways.

The rail network, too, is feeling the first breaths of competition. Lovers, a company which had previously confined itself to running tourist barges on the Amsterdam canals, in August launched the com-

pany to be awarded licences by the end of the year - as is BT of the UK in a joint venture with NS Telecom, an offshoot of the state-owned railways.

The Dutch government

made clear it would not keep Fokker aloft on its own, in

the way that its purchase of

a 40 per cent stake put Daf

Trucks back on the road.

The state also owns a third

of NedCar, Daf's former car

plant which now produces

Volvos and Mitsubishi.

The Swedish and Japanese

partners are thought to be

haggling with the govern-

ment over terms on which

they might buy it out. With

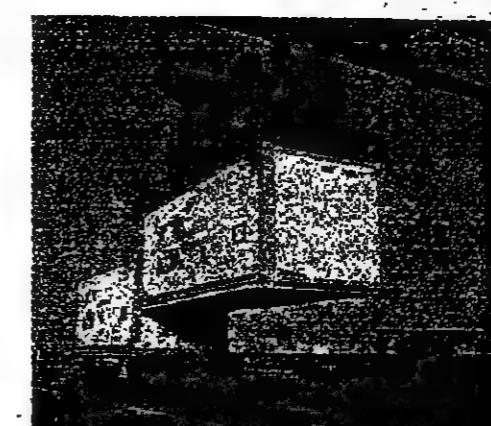
the rationalisation of the

transport sector thus incom-

plete, the deals are likely to

keep on coming.

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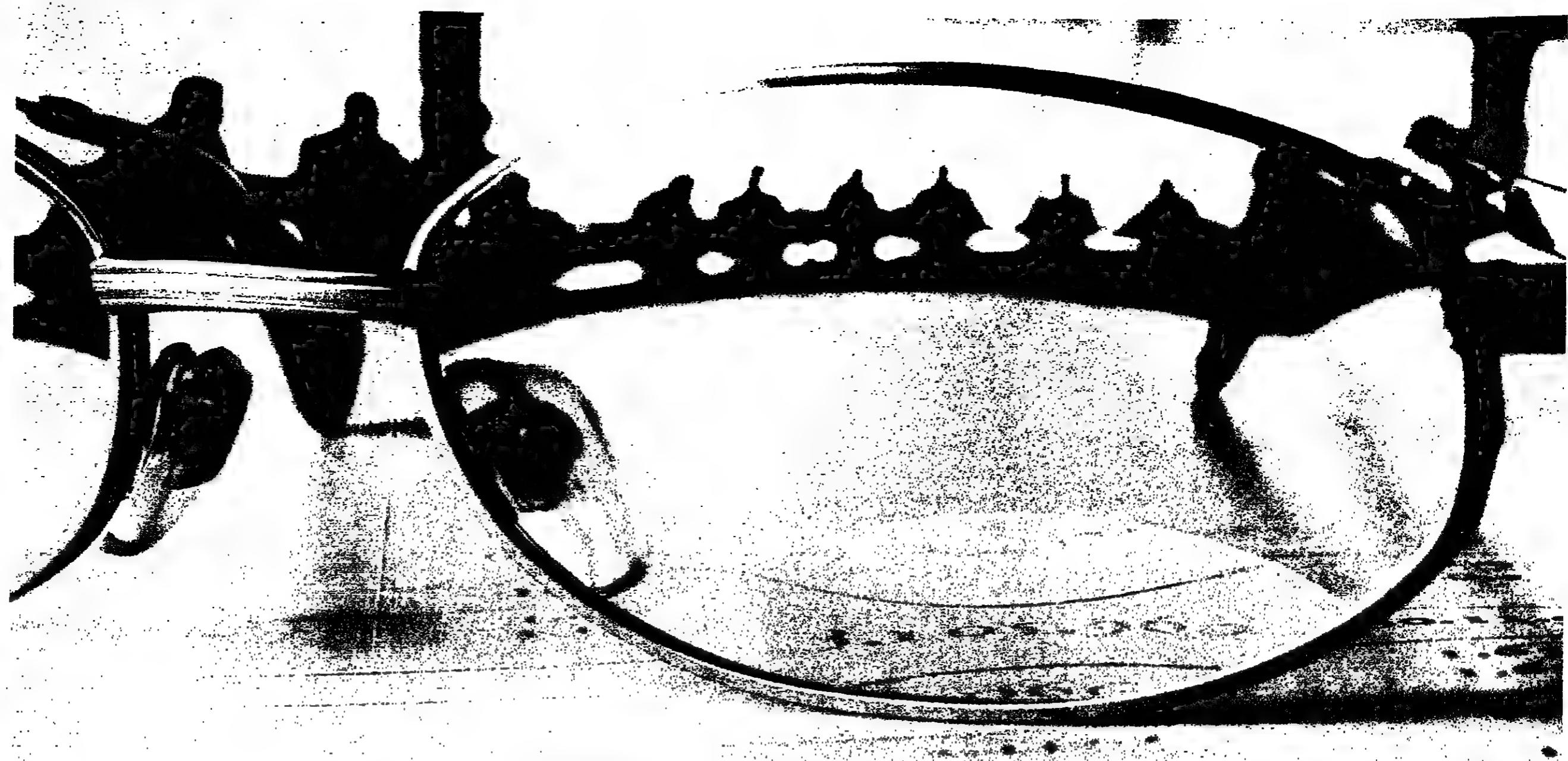
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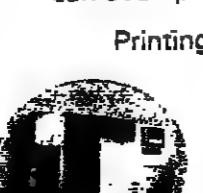
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6 THE NETHERLANDS



A question of perception: Convivial bars and cafes... or pricey restaurants?

Photo: Lydia van der Meer

Two lists from Amsterdam

"An Amsterdam posting? Absolutely. Splendid place. Been there for the odd long weekend. Odd? Come to mention it, it did turn out a bit that way once or twice... but let's not go into that now. Thinking of expanding our presence there, you say? I agree good location for our people. Tell you what, you send me there and I'll confirm those impressions. Once I've got myself sorted, I'll report back." Gordon Cramb attempts to do just that.

What the visitor sees

Venice of the North
Rembrandt and Van Gogh
Tulips at every corner
Phones and trains work fine.

Easy to escape into the country by car

The bicycle is king
Many convivial bars and cafes
A service economy
Hotel rooms with all mod cons
Favourable tax breaks
Police who speak English
Everyone speaks English

Helpful local support staff

Sex

Drugs

Rock 'n' roll

What the expatriate finds

Any premises you might buy are likely to be sub-sabbed
Graffiti

Graffiti on your front door

The PTT cuts you off two days after connecting your carriage is under siege from backpackers

Two-year wait for a central Amsterdam parking permit

The bicycle is stolen

Pricy restaurants, dodgy food
A wait-to-be-served economy. And wait. And wait.

Apartment bereft of light fittings and curtain rails

Hungry accountants

Tax inspectors who speak very clear English

Except the people from whom you are trying to buy light fittings and curtain rails

No staff at all, unless you're prepared to pay cash. In hand, a big fee to a temp agency, or offer a finding contract

Beyond the red light district and the gay bars, the amber light of political correctness flashes just about everywhere

The junkie who sleeps on your doorstep expects you to find his hold because he sweeps the step too (when he's capable)

"Blowing in the wind" is warbled from every pavement as the mug solicits contributions. But Oasis has given the hippie strummer his first repertoire extension. In 25 years, they all now do "Wonderwall". Amsterdam is rejuvenated. Rejoice.



Drugs: available on the doorstep

Photo: Tony Asbury

PROFILE NCM Holding

Early signs of recovery

By the very nature of its business, NCM Holding, the Dutch credit insurer, has broad horizons. Founded in 1925, it was one of the first national champions in the sector to spot and capitalise on an emerging trend towards liberalisation, buying the short-term business of Britain's Export Credits Guarantee Department when it was privatised in 1991.

But the increasing pace of competition, the rapid evolution of information technology, a need to consolidate after a rapid international expansion and change at the top have combined to put the company into an introspective mood this year.

A "re-engineering" exercise undertaken with the assistance of McKinsey & Co, management consultants, led earlier this month to NCM's announcement that it would lose 225 jobs; more than 15 per cent of the total. The redundancies are only part of the changes on the short-term side of NCM, which is being re-organised into business units.

The company had already changed its medium-term business from being based on the industrial sectors of its customers, such as capital goods, aircraft and shipbuilding, to the geographic location of their buyers. It also created a special unit for project financing, backed up one or two experts in each sector, according to Mr Anne van't Veer, managing director of the medium-term business.

NCM has signalled, however, that such internal reviews will not obstruct its expansion if the right opportunity arises. This month NCM also announced the purchase of the remaining 75 per cent of KKR Kredietforsking, the

dominant Danish credit insurer. It had bought a 25 per cent stake in April 1995.

EKR not only covers 25 per cent of Danish exports, and accounts for 80 per cent of the country's credit insurance, but it also brings synergies in under-writing, in sectors such as fish and meat products.

The change at NCM is manifested nowhere more than in its plans for information technology.

"Information is essential in every regard to NCM's strategy," says Mr Gerard van der Stelt, one of two managing directors of short-term credit business in

communications but as a sales tool for policyholders who want more information, more quickly, about their potential customers. NCM is still feeling its way about how much access to give them, without breaching the confidentiality of the information. "We're always testing the boundaries and our customers are always asking for more," admits Mr van der Stelt.

While he maintains: "We're not primarily in the information business; it's part of the product we deliver" – the NCM Profound service is offered as an extra to customers, at

higher claim rates and competitive pressures on premiums, had created a financial squeeze. In 1995, it wrote off F1 44.8m in extraordinary costs compared with an operating profit of only F1 28m. This pulled NCM into its first loss since 1983, and it passed its dividend.

International expansion led to start-up losses at a number of branches in 1995. The company told shareholders last year it did not expect to reach break-even until 1997.

By earlier this month, however, signs of recovery were in sight. NCM reported an interim after-tax profit of F1 13.8m compared with a loss of F1 5.9m in the first half of 1995.

But claim rates in

Germany, up to 75 per cent in the first six months of this year against 62 per cent in all of 1995, continued to exert pressure. In such cases, NCM says, it has two main options: to increase premiums or tighten underwriting. In general, it has taken the latter course, setting limits on insured risk and encouraging customers to strengthen the language in their contracts.

NCM's annual report last year pulled no punches when it said 1996 "will make great demands on the commitment and adaptability of our staff."

The company now hopes the uncertainty is behind it and it can look forward.

"Competition is a good thing", says Mr Marcel Wendrich, NCM's corporate communications director. "It makes you sharper and it's good for the customer. The situation is changing rapidly. Clients will benefit from it. Shareholders will benefit from it. We're confident the company will benefit from it."

For the first time, underwriting specifications will be done to a standard format. The database at NCM's Dutch headquarters, more attuned to domestic business, and that at NCM (UK), more export-oriented, both have 1m buyers. Until the integration, however, someone in Amsterdam had to call Cardiff to find out what was on the British database.

The project was undertaken by Oracle, the software company, but Mr van der Stelt points out: "A lot of functions that have been included in this database are home-grown, built and designed by ourselves."

The system is designed not only for internal

a price – he acknowledges: "We're entertaining the idea of selling it to non-customers as well", to get a foot in the door.

Innovation is not limited to IT: NCM has developed reinsurance facilities to offer political risk coverage without a link to the government of the selling country. This gives it a better ability to offer "one-stop" shopping to multinationals, but whether they actually want it depends in part on how centralised each company's corporate culture is.

Change was also in progress at NCM because it had new leadership. In 1994, its chairman, Mr Harry Groen, then aged 50, announced his plan to retire. He had worked for NCM for 30 years and dominated its culture. He was succeeded in June 1996 by Mr Maarten Hulshoff, a man only three years his junior, who had spent much of his career with Citibank.

Market conditions, both

Clay Harris

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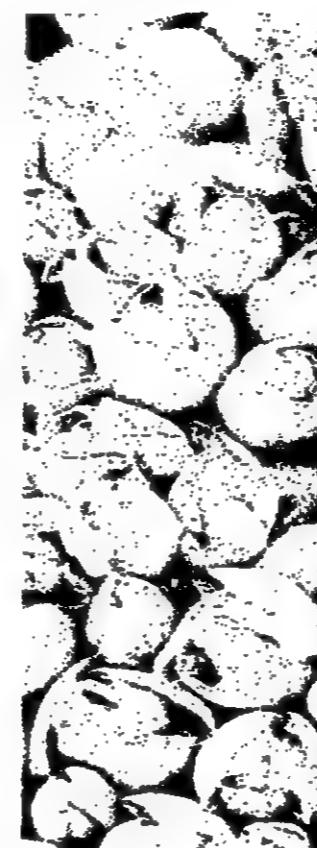
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Port of Amsterdam. More than just a port



Tulips at every corner Photo: IPP



Graffiti... or art? A special clean-up bus tours Maastricht

Photo: Lydia van der Meer

PROFILE AT&T-Unisource

Complexity starts at home

"Management of complexity" will be one of AT&T-Unisource's main selling points to customers in the increasingly competitive European telecommunications market, according to Mr James Cosgrove, its chief executive officer.

But that task starts at home, for AT&T-Unisource is without peer in the complexity of the cross-national alliance it is trying to create.

Its headquarters at Hoofddorp, within sight of the southern edge of Amsterdam's Schiphol airport, sits on a new estate where streets are named after planets and stars. The challenge for Mr Cosgrove, a 22-year veteran of AT&T, and his colleagues will be to keep a galaxy of bodies in their proper orbits.

Unisource is equally owned by four European telecoms groups: KPN's PTT Telecoms in the Netherlands, Telia of Sweden, Swiss Telecom PTT and Spain's Telefónica. The participation of the Spanish company is subject to final approval by the European Commission, depending on the Madrid government's liberalisation plans for the Spanish telecoms market.

In turn, Unisource owns 60 per cent and AT&T 40 per cent of a joint venture, AT&T-Unisource Communications Services (known as Unisource in a transitional stage), which offers integrated voice, data and messaging services to multinational companies operating in Europe.

Unisource and its US partner each owns a 50 per cent share in AT&T-Unisource Participations, which holds investments in other companies. Other Unisource businesses, such as Card Services, remain outside the scope of the joint ventures with AT&T.

To add to the complexity, each of the European home countries has a Unisource Business Network which integrates all the data services for customers in its market.

At the next level down, the respective domestic PTTs, such as PTT Telecom in the Netherlands, acts as distributor, as well as



James Cosgrove: an entrepreneurial investment opportunity

selling, managing and servicing local area networks.

Factor in the existence of five ultimate corporate parents, each with domestic pressure to justify their investments, and one might see the potential for a telecoms Tower of Babel.

For the partners, there appears to be no alternative

to huge research and development resources, and its global WorldPartner links. Yet its alliance with Unisource tones down its American accent just enough to allay any European concerns about an aggressive US giant.

It brings the best of both worlds, Mr Cosgrove argues: "You have to be European to

The only divisional headquarters to be located elsewhere is that for multimedia, previously part of AT&T, which will remain in Geneva.

Mr Cosgrove, however, is openly enthusiastic about the Netherlands as a home base.

We're fortunate to be in Holland. It is an extremely favourable society for absorbing the non-Dutch. There is a high degree of acceptance, not just toleration, of multinational diversity.

From the Hoofddorp centre of AT&T-Unisource's spinning solar system, Mr Cosgrove sees the company as an entrepreneurial investment.

It has elements both of a confederation and of a start-up company, but more of the latter. It is like a start-up in that it requires business plans, "milestones" and regular reports to investors, yet it has the ability to pull resources and expertise from shareholders.

The five shareholders have diverse interests; Mr Cosgrove concedes, but he can cherry-pick personnel

out of individual companies. This is helping to create a corporate identity in a company which has no nationality. "Half of alliances don't work because of cultural issues," Mr Martin says. "Working practices of two years have proved that out remarkably well. We have learned that you have to see this thing as a common operation. Other wise too many bad compromises can be made."

Mr Henk Koning, now managing director of Unisource Business Networks Nederland, was one of the first participants in the PTT Telecom International project in 1991, which led in stages to Unisource. He has seen a similar evolution as each new partner joined. "Equal positions are one of the strengths; we have peers in the organisation," he says.

In spite of this emerging culture, Hoofddorp is without doubt the hub, which may require some finesse to avoid the company being identified as too "Dutch".

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Clay Harris

CURRENCIES AND MONEY

Battered yen hits three-and-a-half year low

MARKETS REPORT

By Simon Kuper

hurting exports. Sterling rose sharply for most of the day, touching DM2.458, but after late profit-taking it closed in London at DM2.451, having added 0.7 pennies to its Friday gains of 2.1 pennies. Against the D-Mark in London yesterday, after crashing through the supposedly tough 'Bentzel ceiling' of ¥113.6, it ended the day at ¥114.15 against the US currency, and ¥76.15 to the D-Mark.

Most currency strategists say the yen is being driven lower by Japanese investors seeking higher yields abroad. Japan is expected to stimulate its weak economy through lax monetary policy rather than by fiscal means, thus keeping the yen weak. The Swiss franc, another low-living currency, closed near a 14-month low of SFr0.829 to the D-Mark. Traders think the Swiss National Bank would welcome a further fall, as the Swiss franc's strength is

hurting exports.

Sterling rose sharply for

most of the day, touching

DM2.458, but after late profit

taking it closed in London at

DM2.451, having added 0.7

pennies to its Friday gains

of 2.1 pennies. Against the

D-Mark the pound closed four

fifths of a cent higher at

£1.612.

The dollar dropped two

fifths of a penny against

the D-Mark to DM1.530. The

Canadian dollar closed

unchanged despite a 25 basis

point rate cut.

The yen suffered from

news that there will be no

Japanese supplementary

budget to stimulate the

economy until January. But most

analysts believe that for now

Washington is relaxed about

the dollar's rise.

Foreign official holdings of

US Treasuries rose by about

\$21bn in September, according

to the Federal Reserve.

By comparison, the \$44.6bn

growth in the entire first

quarter of this year was

itself a record, while growth

has strengthened the Liberal Democratic Party, which is wary of fiscal stimulus, while the Bank of Japan said last week that it expected to keep interest rates low.

Japanese investors, emboldened by the yen's fall, have continued to buy foreign currencies, particularly sterling, which rose ¥23 to ¥184.2 in London yesterday.

Some analysts think that

after the US election Washington may call for a weaker

dollar against the yen over

concern about the US trade

deficit. But with purchasing

power parity suggesting that

the dollar would be fairly

valued at ¥130, most analysts

believe that for now

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Dollars

Against the yen (Y per \$)

114.15 Aug 1996 114.15

Source: Bloomberg

in the second quarter was just \$4.2bn.

Mr Meggyesi says this autumn's growth has nothing to do with last summer's G7 decision to support the dollar. Rather, a range of central banks seems to have been buying dollars, not in order to prop up the US currency but so as to weaken their own. No reserve figures for individual central banks are yet available for September, but Mr Meggyesi fingers Australia, China, Sweden, Brazil and Indonesia as likely dollar buyers.

"Without the central banks the market clearing level for the dollar would be lower and/or US interest rates higher," says Mr Meggyesi. But because several

central banks are not necessarily currency negative at present, because lower rates can be positive for the assets of the country in question."

EURO CURRENCIES

Against the dollar (\$ per €)

1.4488 Aug 1996 1.4488

Source: Bloomberg

banks seem to be buying dollars, the chance of a sudden collapse in the currency is reduced, he says.

■ Despite yesterday's Bank of Canada rate cut, the Canadian dollar closed unchanged in London at C\$1.344 to the US dollar. The 25 point cut took the rate to 3.50 per cent, the lowest level since 1983.

Mr Paul Lambert, senior currency economist at UBS Bank in London, said: "The market has been pricing in rate cuts on the back of the improving fiscal picture in Canada."

Mr Gerald Lyons, chief economist at DKB International in London, added: "Interest rate cuts are not necessarily currency negative at present, because lower rates can be positive for the assets of the country in question."

WORLD INTEREST RATES

MONEY RATES

October 28	Over night	One month	Three mths	Six mths	One year	Lomb.	Dis. rate	Repo rate
Belgium	3%	3%	3%	3%	3%	6.00	2.50	-
week ago	3%	3%	3%	3%	3%	6.00	2.50	-
France	3%	3%	3%	3%	3%	6.35	2.75	4.75
week ago	3%	3%	3%	3%	3%	6.35	2.75	-
Germany	3%	3%	3%	3%	3%	6.25	2.50	3.00
week ago	3%	3%	3%	3%	3%	6.25	2.50	-
Iceland	5%	5%	5%	5%	5%	6.50	2.50	-
week ago	5%	5%	5%	5%	5%	6.50	2.50	-
Italy	7%	7%	7%	7%	7%	6.00	2.50	3.85
week ago	7%	7%	7%	7%	7%	6.00	2.50	-
Netherlands	2%	2%	2%	2%	2%	5.25	2.50	3.00
week ago	2%	2%	2%	2%	2%	5.25	2.50	-
Spain	3%	3%	3%	3%	3%	5.50	2.50	3.50
week ago	3%	3%	3%	3%	3%	5.50	2.50	-
Sweden	3%	3%	3%	3%	3%	5.50	2.50	3.50
week ago	3%	3%	3%	3%	3%	5.50	2.50	-
UK	3%	3%	3%	3%	3%	5.50	2.50	3.50
week ago	3%	3%	3%	3%	3%	5.50	2.50	-
US	3%	3%	3%	3%	3%	5.50	2.50	3.50
week ago	3%	3%	3%	3%	3%	5.50	2.50	-

■ In London FT Landesbank Interbank Funding -5% 5% 5% 5% 5% 5% 5% 5% 5%

US Federal Funds -5% 5% 5% 5% 5% 5% 5% 5% 5%

ECU United Dis. -4% 4% 4% 4% 4% 4% 4% 4% 4%

ECU United Dis. -4% 4% 4% 4% 4% 4% 4% 4% 4%

week ago -3% 3% 3% 3% 3% 3% 3% 3% 3%

■ LIBOR Interbank funding rates are offered rates for \$10m quoted to the market by 11 major banks at 1100 on the previous day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.

LIBOR rates shown for the domestic Money Rates, US CDs, ECU & SDR Interbank Deposits.

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COMMODITIES AND AGRICULTURE

Liffe may take on olive oil futures

By Deborah Hargreaves

Olive oil futures and a soft and agricultural commodities index are new products being considered by the London International Financial Futures and Options Exchange for its newly acquired commodities section.

"We are looking at the long-term potential of several projects, but we have to do the research to see what's viable," said Mr Clive Furness, director of commodity products.

Liffe merged with the London Commodity Exchange in September, bringing futures contracts on coffee, sugar, cocoa, wheat and freight futures under its auspices. Although the commodities contracts continue to be traded on a separate floor, 70 companies have bought the special "F" shares which allow them to trade commodities products.

"We have to make our products visible and accessible to financial traders, but a lot of them started off in the commodities markets in the first place," said Mr Furness. Mr Furness is now working on a business plan for developing commodity products that will be put to the Liffe board on November 19.

Commodities traders are

hoping their merger with Liffe will give them wider access to the huge pool of cash controlled by managed futures funds. Mr Furness is working on a plan to market the commodity contracts to these funds, which are very active in the Liffe market.

The extra business that could be attracted to commodities is shown by the ratio of futures business to the amount traded in the physical market. This ratio is seven to one in Liffe's cocoa futures, but 11 to one for a similar product traded on New York's Coffee, Sugar and Corso Exchange. The ratio for Liffe coffee futures is four to one.

Mr Furness is also working on an options management system to update its process of pricing up options at the end of the day's trading. Over the longer term, he would like to develop a soft and agricultural commodities index that would be based on a weighted basket of future contracts.

Mr Furness also believes the futures contract on the Baltic freight index has enormous potential. This contract currently trades 100 to 200 lots a day, but if the ratio of futures to physical business was only one to one, it could trade 7,200 a day.



Pitched battle: residents of Olympiada defend their archaeological heritage against TVX's plan to establish a \$200m gold extraction plant in the area

TVX gold project faces further delay

By Kerin Hope

TVX Gold's troubled \$200m investment project in northern Greece faces further delay after the discovery of an ancient city on the proposed site of a gold extraction plant.

Residents of Olympiada - a village close to the Canadian company's concession area - claim the plant would threaten the development of a local tourist industry based on the area's rich archaeological heritage.

TVX had been hoping for a respite after local protesters removed their blockades on the road leading to the Olympiada mine. The resi-

dents were placated when the government announced an independent inquiry into TVX's concession area.

Excavations have been started already at Olympiada to unearth the city of Stagira, where the philosopher Aristotle was born in 384BC.

The second ancient city on the site of the planned gold extraction plant was discovered after the Greek archaeological service won a court order to survey the area around the Olympiada mine.

The latest find underlines the difficulties investors face in setting up greenfield projects in Greece, which has a profusion of ancient remains and an important tourist

industry. The TVX project is one of the largest industrial investments in Greece for more than 20 years.

In December TVX paid \$44m for the assets of Cassandra Mines, a bankrupt lead and zinc ore producer, in a deal agreed with the Greek development ministry under the country's privatisation programme.

The company planned to refurbish mines at Olympiada and Stratones, another seaside village, to carry out further prospecting and build a plant to extract gold from a 200,000-tonne stockpile of ore residue with pressure oxidation technology.

TVX, which operates gold mines in Canada, the US, Brazil and Chile, has said that reserves at the Cassandra mines are estimated at 4.4m ounces of gold. The plant would process 300,000oz of gold equivalent yearly, with an estimated recovery rate of more than 80 per cent.

Despite the socialist government's pledge to expedite the project, TVX Hellas was unable to gain access to the Olympiada mine from January until last week because of the road blocks. Earlier this month, the company threatened to shut down operations at Stratones and lay off several hundred workers.

Last week, Ms Anna Diamantopoulou, Greece's development under-secretary, announced the independent study, which she said would decide the location of the plant. Igme, a state mining-research institute, is expected to carry out the study, which should take about three months.

TVX's concession covers about 300 square miles of forest on the Chalcidice peninsula.

Because the area was an important source of timber and minerals in antiquity and is still sparsely populated, it has a high density of ancient settlements, many of them unexplored.

Exchanges urged to help EU farmers

By Alison Maitland

European commodity exchanges need to make strategic alliances and promote new contracts to give farmers in the European Union the risk management tools they need as governments withdraw financial support for agriculture, a London conference heard yesterday.

Mr Lamont Rutten, responsible for risk management policies at the UN Conference on Trade and Development, said the next round of world trade reforms and the eastward enlargement of the EU meant that "within a decade, [farmers] will have to learn how to stand and walk on their own".

New agricultural contracts introduced by European exchanges had not been particularly successful, he told a meeting on risk management in European agriculture organised by ICM, an international conference company.

It would take time for new contracts to be accepted. But there was no reason for European exchanges "to play second fiddle" to the US. "An enlarged Europe is a larger producer of many agricultural commodities and is still sparsely populated. It has a high density of ancient settlements, many of them unexplored.

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Bid fails to put sparkle into FTSE 100 index

MARKET REPORT

By Peter John

A stock market looking for direction found it briefly with a bid and then lost its nerve over interest rates.

Dealers began the week happy to keep their books flat to short ahead of a clutch of significant economic data.

The FTSE 100 index was marginally easier at the start of trading as equities responded to a weaker gilts market. In turn, bonds were reacting to the possibility that tomorrow's meeting between the chancellor of the exchequer and the governor of

the Bank of England could herald a rate rise.

The theory is that the meeting represents the last chance before May to tinker with monetary policy. After the meeting comes the Budget and, after that, the country shifts into general election territory and any move would be considered political.

However, shortly after the opening, CE Electric of the US launched a £65m offer for Northen Electric.

A bid in the utilities sector was predicted last week, but the actuality reminded the market that the takeover bandwagon might have further to roll and the prospect of an injection of cash dis-

pealed the Monday mood. There was a rush of buying in the futures market as dealers, who have hedged against a downturn by holding short positions, raced to cover themselves against a bid-in-rally.

And Footsie built on the gain as sterling showed no sign of giving up its seemingly unstoppable rally. The currency rose nearly a cent against the dollar and half a pence against the D-Mark.

A stronger pound hit big overseas earners such as the pharmaceuticals leaders. Thus sterling's rise might offset the argument for a rate boost, which would tend to increase the attraction of the currency.

Northern soars on hostile bid

By Joel Kibazo, Lisa Wood, Ranvir Gogna

Northern Electric was the main talking point of the day as dealers argued over the likely exit price for the distributor following a hostile £60m a share bid from CE Electric. CE is 70 per cent owned by CalEnergy of the US.

Northern, which last year escaped the clutches of Trafalgar House, not only rejected the bid, but also revealed it had been in discussions with its predator over the weekend which culminated in a proposal of an offer around the 70p a share mark. CE later denied making such a suggestion.

Shares in the group raced forward on news of the bid and a market raid for Northern stock. They gained nearly 25 per cent as the stock jumped 128 to 648p, the best performer in the FTSE 250 index.

Turnover rose to a hefty 21m with ABN Amro Hoare Govett, acting on behalf of CE Electric, having bought 12,886 shares at 630p, a share, the equivalent of 12.7 per cent of Northern's issued share capital.

Market specialists suggested it is now simply a matter of price and several suggested the predator may only have to raise its offer by a small amount to make

Northern the fourth UK electricity utility to come under US control.

One analyst said: "I can't see a white knight coming in. There are other regional electricity companies to go for without getting involved in a bid battle."

The bid for Northern triggered renewed bid talk in several other stocks in the sector. They included London, which advanced 18% to 6084p, while Yorkshire hardened a penny to 744p. Southern was also in demand and ended the day 17% ahead at 6474p.

However, it was a bad day for last week's bid favourites East Midlands Electricity. Many had expected the group to be the next takeover candidate and the absence of such an announcement yesterday brought out the sellers. The shares fell 15 to 5454p, in trade of 2.5m.

Abbey up

Banking group Abbey National was the best Footsie performer with the help of a broker's recommendation. As the session drew to a close, the shares showed a gain of 16 to 636p, with 7.6m having been dealt.

Analysts at Merrill Lynch yesterday reiterated their positive stance, suggesting the stock to be "undervalued", having trailed the market by around 7 per cent over the last three months and by 12 per cent over a six-month period.

They also pointed out that events such as yesterday's confirmation that the All-

iance & Leicester Building Society is to convert to a bank and float on the stock exchange is likely to trigger a change of attitude towards the sector.

The float, with others such as Halifax and Woolwich will largely go into the hands of private investors, which should benefit Abbey as institutions search for stock in the expanded sector.

DFS active

DFS Furniture climbed 164 to 554p after NatWest Securities completed the placing of about 21m shares at 533p per share on behalf of the family of Sir Graham Kirkham, its chairman.

Dealers said the placing had gone well and that the shares rose after the stock overhang had been removed. The children of Sir Graham announced their intention to

FT 30 INDEX

Oct 28 Oct 25 Oct 24 Oct 23 Oct 22 Yr ago High Low
FT 30 2559.4 2834.1 2819.5 2813.3 2805.8 2793.2 2868.8
Div. yield 4.12 4.12 4.12 4.12 4.12 4.12 3.78
P/E ratio net 17.22 17.20 17.13 17.19 17.37 15.51 17.49 12.50
P/B ratio net 17.08 17.04 16.97 17.03 17.21 15.32 17.30 16.71
FT 30 share compn: high 2852.1 19.04/96, low 494.26/04/90, base date 1/7/95

FT 30 30-day changes
Open 9.00 10.00 11.00 12.00 13.00 14.00 15.00 16.00 High Low
2832.7 2841.6 2839.7 2842.5 2843.4 2843.7 2841.0 2837.5 2840.2 2843.8 2832.5
Oct 28 Oct 25 Oct 24 Oct 23 Oct 22 Yr ago High Low
FTSE All M 480 724 138 138 138 138 138 138 138 138 138
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London market data

Rises and falls* 82 Week highs and lows Liffe Equity options
Total Rises 480 Total Highs 56 Total contracts 29,978
Total Falls 724 Total Lows 138 Calls 14,086
Some 1,432 Puts 15,882
Oct 28 Data based on Equity shares listed on the London Share Service.

* Alternative investment market. ** Pending price. * Investment. For a full explanation of all symbols please refer to The London Share Service notes.

Mr John Sheppard, the chief economist with Yamaichi, pointed out yesterday: "The interest rate debate has swung from whether the chancellor can risk another rate cut to whether he can afford a rate hike."

However, he added: "The recent marginal drop in retail sales and the strength of sterling will give some ammunition to the FTSE 250 Index, which includes a heavy dose of utilities companies, to show any real vitality."

Sterling's buoyancy has also encouraged increased overseas investment and some traders noted steady European buying yesterday.

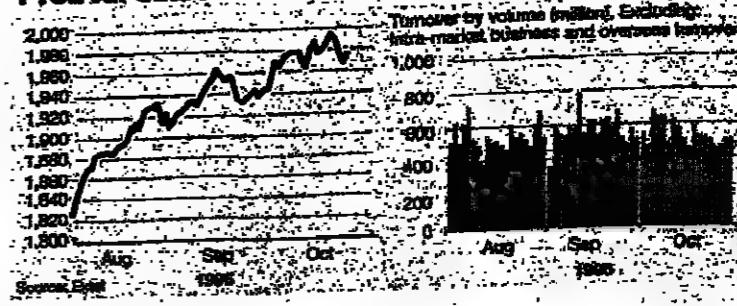
Nevertheless, there was not enough to sustain the morning rally. Footsie failed to respond to

a strong opening on Wall Street preferring to dwell not only on tomorrow's Ken and Eddie show, but also on UK consumer credit data on Thursday and - from the US - payroll and GDP figures.

From showing a gain of 15 points at best, Footsie edged lower to end the day only 2.9 points up at 4,025.3. It was left to the FTSE 250 Index, which includes a heavy dose of utilities companies, to show any real vitality.

The total turnover of 614.4m shares of which 57 per cent was in non-Footsie stocks. Genuine customer business on Friday was worth £1.48bn.

FTSE All Share Index



Indices and ratios

FTSE 100	4025.3	+2.5	FT 30	2839.4	-5.3
FTSE 250	4443.1	+11.6	FTSE Non-Fins p/c	18.21	18.18
FTSE 350	2002.8	+2.0	FTSE 100 Fin. Div.	4052.0	-2.0
FTSE All Share	1975.88	+1.98	10 yr Gilt yield	7.56	7.51
FTSE All-Share yield	3.76	3.76	Long gilt/equity yield ratio	2.11	2.10

Best performing sectors

1 Telecommunications	+1.1	1 Pharmaceuticals	-0.4
2 Alcoholic Beverages	+1.0	2 Banks, Retail	-0.4
3 Engineering: Vehicles	+0.9	3 Household Goods	-0.4
4 Life Assurance	+0.8	4 Banks: Merchant	-0.3
5 Electronic & Elect Equip	+0.8	5 Chemicals	-0.3

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (Liffe) 250 per full index point					
Open	Sett price	Change	High	Low	End vol
4023.0	4032.0	-2.0	4037.0	4045.0	7747 62199
4086.0	4086.0	-2.0	4093.0	4086.0	18 1297
4086.0	4086.0	-0.5	4086.0	4086.0	18 1297
4086.0	4086.0	-0.5	4086.0	4086.0	18 1297
4086.0	4086.0	-0.5	4086.0	4086.0	18 1297

FTSE 250 INDEX FUTURES (Liffe) 210 per full index point					
Open	Sett price	Change	High	Low	End vol
4461.0	4461.0	-0.0	4461.0	4461.0	3 3771
4461.0	4461.0	-0.0	4461.0	4461.0	3 3771
4461.0	4461.0	-0.0	4461.0	4461.0	3 3771
4461.0	4461.0	-0.0	4461.0	4461.0	3 3771
4461.0	4461.0	-0.0	4461.0	4461.0	3 3771

EURO STYLING FTSE 100 INDEX OPTION (Liffe) 4025.3 per full index point					
Open	Sett price	Change	High	Low	End vol
3860	3860	-3860	3860	3860	4100 4200
3860	3860	-3860	3860	3860	4100 4200
3860	3860	-3860	3860	3860	4100 4200
3860	3860	-3860	3860	3860	4100 4200
3860	3860	-3860	3860	3860	4100 4200

EURO STYLING FTSE 250 INDEX OPTION (Liffe) 4025.3 per full index point					
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3860	3860	-3860	3860	3860	4100 4200
3860	3860	-3860	3860	3860	4100 4200

4 pm close October 31

NEW YORK STOCK EXCHANGE PRICES

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**HEWLETT
PACKARD**

Dow trades narrowly at mid-session

AMERICAS

US shares were flat at mid-session with little in the way of corporate earnings reports or economic data to provide the market with a direction, writes Lisa Branstetter in New York.

Shares started with strong gains as momentum from Friday seemed to carry over into the new session, but by midday most of the leading indices had retreated into negative territory.

At 1pm, Dow Jones Industrial Index was off 1.48 at 6,005.33 and the American Stock Exchange composite was 0.64 weaker at 569.15, while the Standard & Poor's 500 crept up by 0.26 to 701.18. NYSE volume was 220m shares.

Technology shares were also mostly flat on a mixed performance by the largest companies in the sector. The Nasdaq composite was 0.66 lower at 1,221.84 and the Pacific Stock Exchange technology index slipped 0.3 per cent.

With the earnings reporting season largely over, analysts expected shares to trade in a narrow range until there were economic data that provided a clear indication of the direction of the US economy.

That could come from today's release of the third-quarter employment cost index or tomorrow's release of data on third-quarter economic growth. The most

important figures of the week, however, are likely to be in Friday's report payroll employment in October.

Among the four largest technology companies on the Nasdaq, Intel advanced \$1 at \$106.35, Microsoft was \$1.10 stronger at \$137.45 and Oracle Systems added 8¢ at \$42.50, while Cisco Systems lost \$1 at \$58.40.

The strongest performers on the Dow were Minnesota Mining & Manufacturing, up 8¢ at \$75.40, Procter & Gamble, \$1.14 stronger at \$95.50 and Philip Morris, which added \$1.40 at \$83.40.

BASF and Metro powered ahead by more than 3 per cent and Daimler-Benz, Volkswagen and Continental all put on more than 2.5 per cent. At the close, the Dow was up 12.54 at an Ibis-indicated 2,703.33.

News of joint venture

talks with DSM of the Netherlands pushed BASF up by DM1.57 to DM48.88, and Metro, depressed lately by tax concerns, gained DM3.90 to DM130.40 after the top retailer announced that there was "no need" to correct recent prospectus statements.

VM ended DM14.75 better than DM58.75 after confirmation that the German ministry of justice plans to scrap corporate voting rights restrictions. Daimler rose DM2.47 to DM89.90, mostly in sympathy. Continental ended 65 pfq better at DM26.50. Bankgesellschaft Berlin, which is in cooperation with Norddeutsche Landesbank, dipped 35 pfq to DM1.75.

PARIS shares turned weaker in modest volume and, at the close, the CAC 40 index was down 12.04 at 2,150.33.

Lagardere, off sharply on Friday, continued to be buffeted by profit-taking, this time prompted by talk that its takeover of the Thomson group may face political hurdles.

The shares fell almost 7 per cent to close off FF11.50 at FF11.54 for a two-day decline of FF11.50.

Usinor Saclor rose strongly following an upbeat press report. The shares jumped more than 2 per cent on talk of easier times ahead for steel makers, ending up FF12.00 at FF17.77.

Rhone-Poulenc continued to improve as investors

warned of Friday's strong nine-month results. The

Loctite, the maker of chemical sealants and adhesives, jumped 11.1% to \$67.75 on news that Henkel was in the market to acquire the 65 per cent of the company it did not already own.

TORONTO gained ground

after the tenth interest rate cut this year by the Bank of Canada, aimed at providing a further boost to the economy. By noon, the TSE-300 component index was 19.00 higher at 5,568.50.

Bre-X Minerals jumped

CS\$1.00 to CS\$24.60 as it forged an alliance with Indonesia's Panutan Duta, under which Panutan would help Bre-X to develop its Busang gold

gold project.

Tarien, the motor components company, picked up CS\$1.40 to CS\$13.90 as its board said that it would recommend shareholders to accept a CS\$14.00 a share offer from Gecamec Technologies.

Mexico City ahead

MEXICO CITY moved ahead during the morning session with sentiment underpinned by the weekend renewal of the "economic pact" between the government, business and the unions, together with the onset of the third-quarter results season.

The IPC general index was up 7.32 at 8,240.60 at mid-session.

CARACAS also overturned last week's weakness, improving steadily in early trading. At mid-session the

IBC index was 42.19 higher at 8,015.68. Dealers said that the market was mostly casting around for fresh leads. "Almost everyone is waiting for details of the CANVT fluctuation," said one trader.

BUENOS AIRES was mostly ahead at the close of the morning session with the Merval index 0.11 better at 559.68. Brokers said investors

were starting to move back into the market after the recent heightened worries over state corruption.

The market was in black

mod from the opening bell following disappointing profits on Friday from Philippine National, the leading bank, and from Pilip, the mobile phones group hit by fraud losses.

Shares fell through the important 2,900 level early in the session and at the close the index was off 110.44 at 2,852.16, its lowest level for seven months.

PNB ended 10 pesos lower at 312 pesos. Pilip moved to a new low for the year of 23 pesos, down 1 peso.

TOKYO rebounded sharply to break a five-day losing streak as the yen's fall against the dollar drove up some export-oriented issues, writes Gwen Robinson.

Trading volume, however, slid as investors were cautious after last week's 4.2 per cent tumble in the 225 index.

The Nikkei average added 145.44 to close at 20,885.41 after fluctuating between 20,788.17 and 20,907.37. The Topix index of all first-section trading stocks climbed 7.18 to 1,783.40.

The yen's further fall against the dollar encouraged some buying of export-oriented issues, but deterred foreign investors who traded Japanese shares on a dollar basis and saw greater risks in chasing higher prices on the Tokyo market.

However, securities analysts

saw prospects for an imminent share market rally given growing concerns about overheating in the booming bond market where key bond futures reached highs for the sixth consecutive trading day.

Export-oriented blue chips, including high-tech companies and most car makers, benefited from the weaker yen. NEC added Y20 to Y1,240 and Sony climbed Y30 to Y6,890. Toshiba, the day's most active stock, rose Y2 to Y735 on heavy buying following the company's announcement last Friday of improved profits for the first half to September.

Among car makers, Honda Motor rose Y20 to Y2,700 and Toyota Motor added Y10 to Y2,700. Nissan Motor, however, fell Y5 to Y835 on foreign selling.

Oil refiners gained ground,

reflecting higher crude

prices on the international market.

Tomen was up Y30 to Y1,550 and Nippon Oil gained Y10 to Y657.

In Osaka, the OSE average

added 58.72 to 12,381.96 in volume of 11.6m shares.

HONG KONG was hit by

an afternoon slide as a pause in the market's recent rally prompted profit-taking.

The Hang Seng index closed 125.61 lower at 12,322.77 in turnover that eased to HK\$3.50m.

Strong property stocks led

the decline with Cheung

Kong and Sun Hung Kai

Properties each down HK\$1.50 to HK\$80.25 and HK\$85

respectively. Hysan Develop-

ment bucked the trend to

end 10 cents up at HK\$24.30.

In London, the ISE/Nikkei

50 index climbed 2.74 to 1,420.89.

Traders noted large-lot buying by some domestic institutional investors, but said the market seemed

reluctant to take positions

either way amid political

uncertainty and in the

absence of fresh incentives.

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The overall index fell 20.9

to 6,964.3, industrials fell

37.5 to 8,231.4 and golds

gained 18.8 to 1,717.7.

Analysts noted that the rand

sank to new lows against the

dollar and pound, hit by

fresh speculative demand

out of London.

JOHANNESBURG's industrial

shares ended weak in busy

trading under pressure from

an ailing rand, but gold

shares were lifted by a bet-

ter rand gold price and

stronger bullion.

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